

Singapore

The economy recovered to grow at a blistering pace in 2010. A rebound in exports revived manufacturing, investment, and private consumption. Inflation increased, mainly owing to higher costs for transport, housing, and food, and it will quicken through the first half of 2011. GDP growth will moderate this year and next. With the strong rebound bringing the economy back to its potential output, an immediate challenge is to expand production capacity.

Economic performance

This open economy rebounded to the scorching pace of 14.5% in 2010. Export-oriented manufacturing and financial services rode the global recovery in trade and investment. Growth was particularly strong in the first half of 2010, given the low base set by the contraction a year earlier (Figure 3.29.1).

Exports of goods and services in real terms grew by 19.2%, driven by chemicals and electronic components and parts. Imports rose by 16.6%, with sharp increases in imports of raw and intermediate materials and capital goods. Net exports of goods and services rose by 38% to contribute the bulk of total GDP growth (10.5 percentage points).

The impact of rebounding external trade and manufacturing spilled over into private consumption and investment. Private consumption increased by 4.2% in 2010, adding 1.6 percentage points to total growth. A stronger labor market lifted employment and wages. Visitor arrivals jumped by 20.2%, helping to fuel a 7.1% rise in retail sales in real terms.

Fixed investment increased by 5.1%, adding 1.4 percentage points to GDP growth. That reflected public and private sector investment in buildings as well as business investment in machinery, equipment, and software. Government consumption rose by 11.0%, accounting for 1.2 percentage points of the GDP growth, largely on increased social spending in education, health, and public housing.

On the production side, the more export-oriented sectors saw the fastest growth. Manufacturing accounted for nearly half the GDP growth, after contracting in 2008–2009 (Figure 3.29.2). Precision engineering and electronics posted gains of 40% and 35%, respectively, on the back of revitalized export demand for semiconductor-related equipment and consumer electronics. The biggest surge was in biomedical manufacturing, which jumped by 50% owing to higher production of pharmaceutical ingredients and a more diverse production mix. Growth in overall manufacturing peaked at 41.5% in June 2010, on a 6-month moving average basis (Figure 3.29.3).

Resumption of growth in consumer spending boosted wholesale and

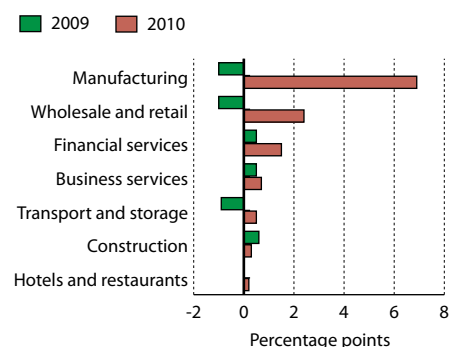
3.29.1 GDP and net export growth



Source: CEIC Data Company (accessed 14 March 2011).

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3.29.2 Contributions to growth (supply), selected sectors



Source: Singapore Ministry of Trade and Industry. 2010. *Economic Survey of Singapore*. <http://www.singstat.gov.sg>

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retail trading, which grew by 15% and contributed 2.4 percentage points to GDP growth. Significant gains were seen in sales of such items as household furnishings, clothing, and footwear (Figure 3.29.4). Financial services accelerated by 12.2% in 2010, accounting for 1.5 percentage points of GDP growth, because of increased nonbank and business lending and expansion by investment banks.

Growth in construction moderated to 6.1% in 2010 from 17.0% in the previous year, as some major public projects were completed. Private construction picked up for housing (due to rising house prices) and for commercial and industrial buildings (benefiting from the economic recovery). Construction contracts awarded to private-sector firms doubled in value in 2010, to US\$14 billion.

Services, accounting for 70% of total employment, generated nearly all the new jobs last year. The number of people employed rose by 112,500 to 3.1 million. The overall unemployment rate, including foreign workers, declined to 2.2% (3.1% for citizens and permanent residents).

The rapidly expanding domestic and external demand was accompanied by a rise in inflation to 4.6% by year-end (Figure 3.29.5); inflation averaged 2.8% in 2010. Major causes were an increase in the cost of automobile certificates of entitlement and rising prices for housing, which contributed to higher accommodation costs. Food prices also started to pick up from about April 2010, and by year-end contributed about one-tenth of overall inflation.

The Monetary Authority of Singapore (MAS) tightened its policy stance as recovery took hold and inflation picked up. The MAS sets policy by managing the Singapore dollar in a band against a basket of currencies by changing the midpoint, slope, or width of the band. In April 2010 it recentered the band, providing more room for the Singapore dollar to appreciate. Later in the year, as the labor market tightened and capacity utilization rose, the MAS steepened and widened the band, allowing for still further appreciation. During 2010, the currency appreciated by 6.8% against the US dollar. Liquidity in the economy remained high, and broad money grew by 8.6%.

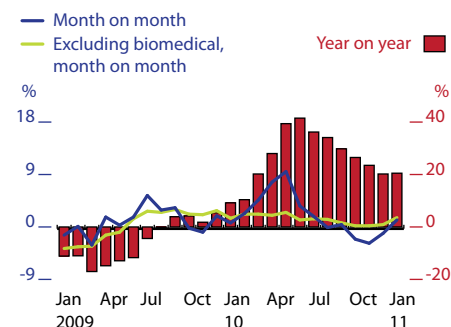
In the external accounts, a 31.1% rise in merchandise exports in 2010 outpaced a 27.6% increase in merchandise imports (both in US dollars), and the trade surplus rose to US\$46.6 billion. Together with the external balances for services and income, the current account surplus climbed to the equivalent of 22.2% of GDP. International reserves rose by about 20% to US\$225.7 billion (cover for 6.6 months of goods and services imports).

Economic prospects

Global economic growth, in particular projected strong expansion in much of Asia, lays the ground for solid growth in Singapore this year and next. However, growth in net exports will moderate substantially in 2011 due to base effects and higher imports to support investment.

Expected growth of manufacturing suggests that industries, including electronics and biomedical, will need to invest in capacity expansion. Investment will remain strong in construction, given solid demand for residential and commercial buildings and extension of the mass transit rail system.

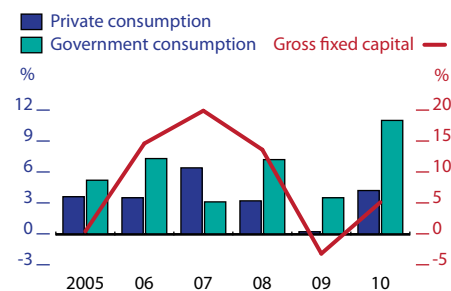
3.29.3 Manufacturing growth, 6-month moving average



Source: Singapore Economic Development Board. *Monthly Manufacturing Performance*, January 2011. <http://www.edb.gov.sg>

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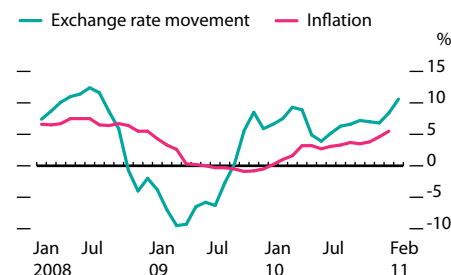
3.29.4 Growth in consumption and investment



Source: CEIC Data Company (accessed 12 March 2011).

[Click here for figure data](#)

3.29.5 Inflation and exchange rate



Source: CEIC Data Company (accessed 14 March 2011).

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The low rate of unemployment, however, coupled with a government commitment to restrict the use of low-skilled foreign labor (in moves to raise productivity) will put upward pressure on costs and could act as a drag on some industries.

Retail sales, excluding automobiles, rose by 13.5% in real terms in January 2011. Further growth in incomes and the upward trend in visitor arrivals will continue to stimulate growth in retail sales this year.

Monetary policy is expected to tighten further. Strong recovery in 2010 put the economy back on, if not above, its potential output, so that further growth this year is likely to exert pressure on inflation. The monetary authorities will likely consider steepening the slope of the currency's trading band, giving more room for it to appreciate.

Fiscal policy, in contrast, is likely to have a neutral impact on the economy. Operating expenditure in FY2011 (ending 31 March 2012) has been increased to support social spending in education, health, and public housing. Growth in development expenditure is budgeted to decelerate, since some transport projects have been completed. The government is making a cash transfer to citizens this year, but the amount is relatively small.

Once these strands are woven, the economy is forecast to grow by 5.5% in 2011, with the potential to surprise on the upside (if a better than expected performance by industrial economies and Asian trading partners materializes). In 2012, growth is forecast to moderate further to 4.8% (Figure 3.29.6) as the economy returns to its long-run trajectory.

Inflation quickened to 5.5% in January 2011, driven by rising costs of transport and housing (Figure 3.29.7). It is seen staying relatively high through the first half of 2011 before moderating. Year-average inflation is put at 3.2%, easing in 2012 as the rate of cost increases of imported food and fuel decelerates.

Growth in merchandise exports is forecast to slow to 13% in nominal terms this year and imports to just below 17%. (Exports increased by 17% year on year in January 2011.) The current account surplus as a share of GDP is expected to decline to about 19% in the forecast period, reflecting the impact on trade of higher prices for imported fuel and food, imports of capital equipment, and the firmer Singapore dollar.

Risks are both on the down- and upside. As well as the tight domestic labor market that could retard expansion in some industries this year, higher than assumed global commodity prices would hurt manufacturing industry, as would weaker than projected global trade. The impact on supply chains from the March earthquake in Japan is unclear, but Singapore's direct trade with that country is now low (as a proportion of total trade, exports to Japan averaged 5.8% in the past decade, down from 7.4% in the 1990s, while imports declined to an average of 10.5% from 18.0%).

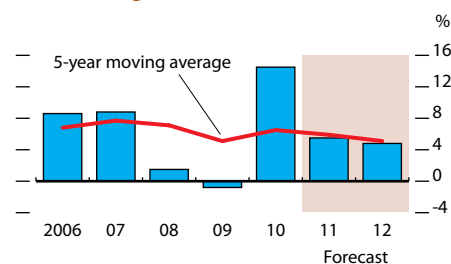
On the upside, a better performance by industrial economies and Singapore's Asian trading partners would likely have a significant impact on this open economy.

3.29.1 Selected economic indicators (%)

	2011	2012
GDP growth	5.5	4.8
Inflation	3.2	2.0
Current account balance (share of GDP)	18.8	19.2

Source: ADB estimates.

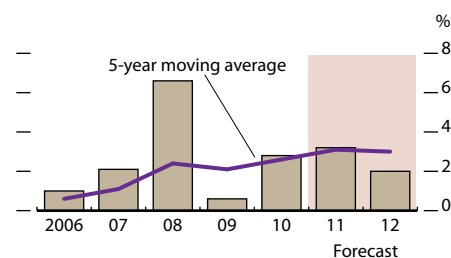
3.29.6 GDP growth



Sources: Singapore Department of Statistics. <http://www.singstat.gov.sg> (accessed 14 March 2011); ADB estimates.

[Click here for figure data](#)

3.29.7 Inflation



Sources: Singapore Department of Statistics. <http://www.singstat.gov.sg> (accessed 14 March 2011); ADB estimates.

[Click here for figure data](#)

Development challenges

Expanding the economy's capacity is an immediate imperative. Even moderate economic growth will likely push up prices and costs of

production. The government's strategy, laid out in 2010, is to pursue policies that raise productivity by 2%–3% a year over the next 10 years, more than double the rate of increase in the past decade.

By making low-skilled foreign labor more costly—it is increasing levies on companies that employ foreign, low-skilled workers—the government is encouraging employers to focus on improving productivity. This year's budget reiterates the government's 2010 commitment to provide incentives for firms to automate operations and invest in skills development.

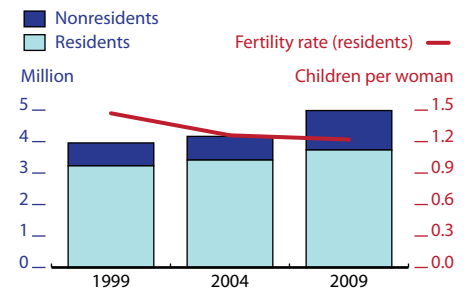
Discouraging the use of foreign workers in less productive tasks, at a time of strong economic growth, has tightened the labor market and raised operating costs, particularly for small and medium-sized businesses that employ cheap foreign labor. But as there will be a lag before the productivity gains feed through, measures may be needed to soften the policy's impact on firms during that period.

Singapore's aging population is another challenge. The old-age support ratio (the number of people 15–64 years relative to those 65 years and over) has declined from 10.1 in 1999 to 8.3 in 2009. Economic and social development has been associated with a decline in the fertility rate of residents. From 1.5 in 1999—already well below the replacement rate—it fell to 1.2 in 2009 (Figure 3.29.8).

To meet the labor requirements of an expanding economy, in past years Singapore turned to immigration and recruitment of foreign workers. Concerns about the increasing number of such workers (now at least one-third of the labor force) and the aging population have led the government to seek new ways to encourage population growth. The National Population and Talent Division, created in 2010, has been tasked with formulating policies and overseeing population programs to achieve a sustainable and integrated population.

Sharp increases in prices of housing last year (about 14% for public and nearly double that for private housing) prompted the government to act several times to curb speculative demand. It introduced a seller's stamp duty, paid if a property is resold within 1 year (as prices continued to rise it extended this period to 4 years and raised the rate of stamp duty); increased minimum downpayments; and lowered loan-to-value ratios. On the supply side, it accelerated its release of land for both public and private housing.

3.29.8 Population and fertility rate



Source: Statistics Singapore. *Population in Brief 2010*. <http://www.singstat.gov.sg>

[Click here for figure data](#)