Singapore

Economic growth is volatile—slumping during the 2008–2009 global financial crisis, rebounding strongly in 2010, slowing to a more sustainable level in 2011, and decelerating further in 2012. Singapore's vital trade in manufactured goods and financial services will not fully stabilize until the world economic outlook improves, forecast for the latter part of this year and into 2013. Still, strong domestic demand is helping offset the weak external sector. In 2013, the growth rate should pick up pace as the recovery in the United States (US) strengthens and the eurozone situation improves.

Economic performance

Following a record 14.8% jump in 2010, economic growth eased to 4.9% in 2011. The main contributor to growth was domestic demand, notably private consumption and investment (Figure 3.29.1). Private consumption rose by 4.1% and accounted for 30% of overall growth. Supporting this was strong employment: the unemployment rate dipped as low as 2% after a tightening of foreign worker levies was announced in February. Investment increased by almost 10%, contributing 40% of overall growth. Gross fixed capital formation rose by only 3.3% but, because of a much diminished rundown of inventories, investment was higher. Government consumption nudged up by less than 1%.

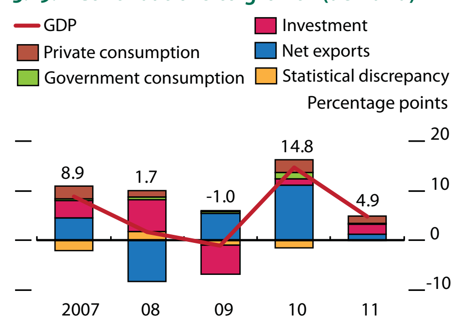
Even though external trade was so weak, especially toward the end of the year (Figure 3.29.2), net exports still accounted for 25% of overall growth. Exports climbed by only 2.6%. The weak trade performance was in contrast to that in 2010, when net exports rose by 40% (versus 3.4% in 2011) and accounted for the bulk of a much higher overall growth rate.

The main supply contributors to growth were manufacturing and financial services (Figure 3.29.3). Manufacturing output increased by 7.6%, a healthy rate buoyed by biomedical exports, but this was a big pullback from the exceptional 30% growth seen in 2010. The electronics subsector slumped, as global demand dropped for semiconductors and related equipment. The impact was severe in the last quarter, as falling business confidence combined with a general inventory overhang.

Despite the uncertain global context, financial services grew by 9%; they now directly account for 12% of GDP and support a large number of related subsectors. The accommodation and food services subsector rose by 6%, driven by fast-growing tourist arrivals, although the wholesale and retail trade subsector grew only marginally, reflecting the weak trade performance. Transport/storage and business services climbed strongly in the first half but fell flat in the second.

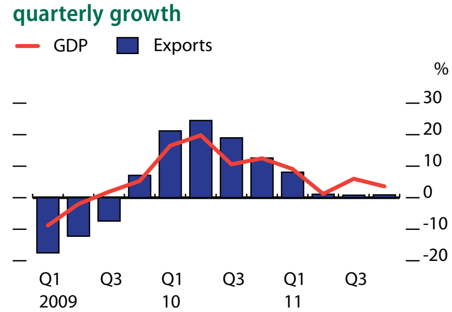
Construction activity was slow, particularly in the fourth quarter, mainly reflecting a decline in residential building. Although property

3.29.1 Contributions to growth (demand)



Source: CEIC Data Company (accessed 12 March 2012).

3.29.2 GDP and merchandise exports, quarterly growth



Source: CEIC Data Company (accessed 14 March 2012).

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prices have risen by more than 50% since mid-2009, they have slowed for eight consecutive quarters, in part due to government measures to curb speculation.

Inflation averaged 5.2%, double 2010's rate, mainly because of higher costs of housing, transport, and food (Figure 3.29.4). Housing costs rose by 8.3% and transport costs by 12% (reflecting tightening of certificates of entitlement designed to reduce traffic congestion). Imported inflation associated with food and fuel prices was also a contributing factor, although the general strength of the Singapore dollar helped lessen imported price pressures. Core inflation was around half the headline rate.

After the rebound of economic activity in 2010, fiscal consolidation has replaced fiscal stimulus introduced in response to the global financial crisis. Although the FY2011 budget (1 April–31 March 2012) projected a small deficit, a substantial surplus is now expected of about S$2.3 billion or 0.7% of GDP. Revenue was higher than expected owing to strong corporate income and property-related tax receipts.

Monetary policy was relatively tight during the year, designed to reduce inflation. Money supply (M2) rose by 10.0%, or slightly more than in 2010. As the year progressed, however, policy makers became increasingly concerned about the deteriorating global and domestic economic outlook. As in the past, the main lever of monetary policy was the exchange rate. The Monetary Authority of Singapore (MAS) eased monetary policy a little in October 2011 by lowering the gradient of the trading band within which the Singapore dollar is allowed to trade. The average exchange rate for the year was S$1.26/US$1, an appreciation of 8.4% from the average in 2010 (Figure 3.29.5).

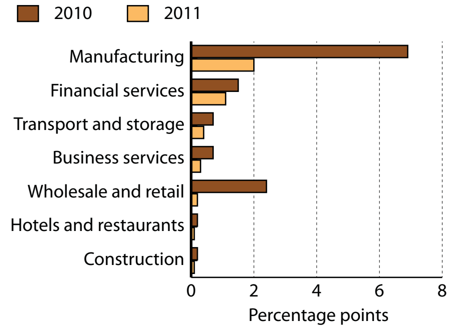
The overall balance-of-payments surplus was US$17.1 billion, the result of a decline in net outflows in the capital and financial account, and a slight increase in the current account surplus. International financial turbulence in the second half of 2011 prompted a sharp fall in Singapore's equity and currency markets, prompting the MAS to cushion the impact through injecting dollar liquidity.

Exports grew at a diminishing rate in 2011. In the case of non-oil exports and reexports, exports actually contracted in the second half; weakening external demand was compounded by the natural disasters in Japan and Thailand that severely disrupted global supply chains for electronics and other key sectors in which Singapore plays a significant role. As noted, while imports also experienced diminishing growth, they grew more rapidly than exports. Singapore nonetheless maintained a large surplus in its transactions with the rest of the world, and its international reserves increased to US$238 billion.

Economic prospects

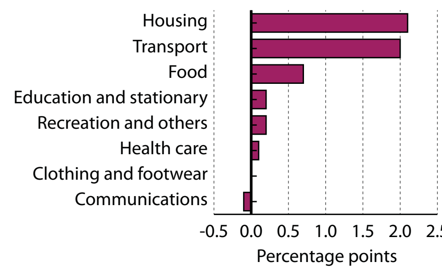
Despite strong domestic demand, economic growth is forecast to slow further in 2012 to 2.8%. Weak external demand stemming from the possibility of a recession in the eurozone, a slow US recovery, and the moderating growth in the People's Republic of China (PRC) will continue to hold back exports and investment in trade-related sectors. Growth is forecast to recover to 4.5% in 2013, assuming that the global economic outlook improves.

3.29.3 Contributions to growth (supply), selected sectors



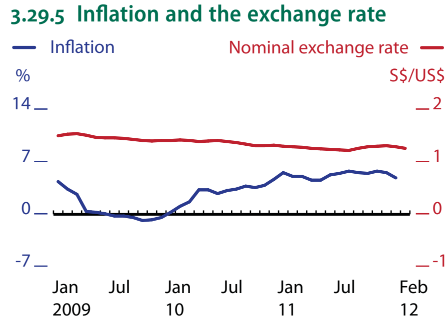
Source: Singapore Ministry of Trade and Industry. 2011. Economic Survey of Singapore. http://app.mti.gov.sg

3.29.4 Sources of inflation, 2011



Source: Singapore Ministry of Trade and Industry. 2012. *Economic Survey of Singapore 2011*. February. http://app.mti.gov.sg

3.29.5 Inflation and the exchange rate



Source: CEIC Data Company (accessed 14 March 2012).

Private consumption is expected to be high, with the labor force benefiting from tight supply conditions as the government endeavors to reduce the country's reliance on foreign workers. Private sector investment will likely be anemic on concern over global prospects. Public infrastructure investment, though, will remain a priority of the government, even as it continues its policy of fiscal consolidation.

The FY2012 budget announced in February indicated a surplus of 0.4% of GDP for the current fiscal year (ending 31 March 2013). The budget focuses on measures to reduce the dependence on foreign workers and to strengthen productivity and innovation, following the recommendations last year of the Economic Strategies Committee of the Prime Minister's Office. The government is in a solid position to introduce new fiscal stimuli, if they are needed, to act early against any early signs of a developing economic setback.

Manufacturing, especially its electronics subsector, will continue to run into the headwinds that have not fully dissipated from the second half of 2011 (Figure 3.29.6). The sector is highly dependent on final demand in the US and Europe, neither of which is expected to show strength this year.

Also, Singaporean electronics firms have to restructure and seek higher value-added development opportunities. Firms are continuing to hire and expand, but cautiously in light of the uncertain global outlook. Although trade within Asia, notably with the PRC, has continued to expand rapidly, it is heavily based on global value chains and final demand in advanced countries. The biomedical manufacturing subsector is, however, less sensitive than the electronics industry to variations in external demand, and appears to have strong growth potential.

Similar to manufacturing, financial services are expected to face continued headwinds during the next couple of years, but recently international equity markets have seen a big lift, including those in Singapore, one of Asia's biggest wealth management centers. Demand from the region for services such as finance, logistics, and tourism is likely to continue growing.

The conditions driving Singapore property prices higher in recent years—notably brisk demand and tight supply—are expected to continue easing, mainly because the measures taken last year by the government to cool the property market appear to have been effective (Figure 3.29.7). The continued slowdown in the economy should help cool demand further, contributing to a correction in home prices and sales volume this year.

Inflation is forecast to decline to 3.0% and 2.5% in 2012 and 2013, abetted by slow domestic and global growth. The strength of the Singapore dollar will also help contain imported inflation, as will the expected easing of world commodity prices (apart from oil). As inflation recedes, the MAS will likely take further steps to loosen monetary policy.

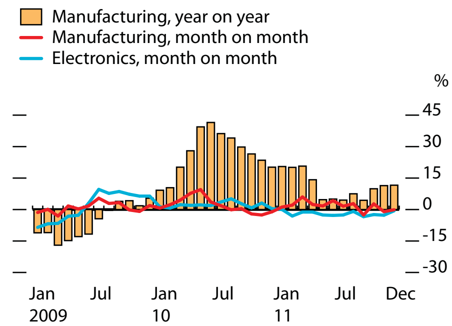
Singapore will continue to have very large current account surpluses, the equivalent of 18.0% and 16.0% of GDP in 2012 and 2013. Merchandise exports, although with subdued growth, will remain an important source of growth. The services account will likely remain in surplus, boosted by tourism receipts and strong external demand for Singapore's financial services. By contrast, the income account will remain in deficit.

3.29.1 Selected economic indicators (%)

	2012	2013
GDP growth	2.8	4.5
Inflation	3.0	2.5
Current account balance (share of GDP)	18.0	16.0

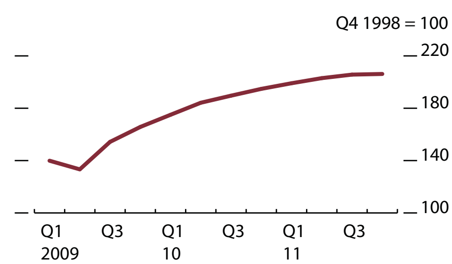
Source: ADB estimates.

3.29.6 Manufacturing growth, 6-month moving average



Source: Singapore Economic Development Board. *Monthly Manufacturing Performance - December 2011.* http://www.edb.gov.sg

3.29.7 Private residential property price index



Source: CEIC Data Company (accessed 14 March 2012).

Although income from abroad is expected to grow as local companies make increased returns on investments abroad, income payments will also mount, in line with steady profits made by foreign companies with subsidiaries in Singapore.

Forecast risks are on the downside, as the global economic outlook is so uncertain. The biggest risk lies in the eurozone and possible worsening of its sovereign debt crisis. Independently of that, a sharper than expected slowdown in the PRC would weaken Singapore's growth prospects. Yet another risk is a possible spike in oil prices caused by Middle East tensions.

Policy challenge—Foreign workers/productivity tradeoff

Foreign workers account for over one-third of the labor force (Figure 3.29.8), reflecting the aging structure of the population and declining birth rates (Figure 3.29.9). The large presence of foreign workers has enabled Singapore to expand its manufacturing, financial services, and other key sectors. Further, skilled foreign workers have helped it maintain its cost competitiveness in high-end products.

Their prevalence may, however, have lowered the wages of local low-skilled workers. There has also been concern that such a large presence may have discouraged technology adoption and lowered labor productivity. Housing pressures and other consequences are further areas of concern.

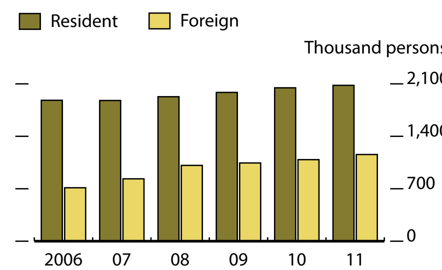
In this slow-growth period, policy makers are concentrating on ways to mitigate some of these effects, especially the intensifying competition with foreign workers for unskilled jobs. The Economic Strategies Committee has recommended restricting the number of foreign workers and targeting productivity growth of 2–3% annually, leading to an economy of highly skilled workers employed in innovative services and industry sectors.

Thus foreign worker levies, paid by employers, are being raised at 6-month intervals, starting in January 2012 through July 2013. Increases in the levies vary by sector, generally higher for low-skilled work (e.g., construction) and lower for high-skilled work (manufacturing and financial services). Dependency ratio ceilings are also being reduced, which specify the maximum proportion of foreign workers that companies can hire. Concurrently, the government is encouraging businesses to invest in productivity and to reduce their reliance on low-skilled foreign workers. Multinational and large companies should adjust to the higher levies and lower quotas without much difficulty, but small and medium-sized companies (SMEs) relying heavily on foreign workers will find it hard to restructure.

To facilitate the transition, a S$2 billion National Productivity Fund has been established. Further, the government has introduced specific initiatives to help SMEs restructure their operations, such as the SME Productivity Roadmap, which provides a systematic approach for improving productive capacity. The Continuing Education and Training system is designed to ensure that Singaporeans' skills are regularly upgraded.

Singapore has determined that it must reduce its dependence on foreign workers and transition to higher value-added activities. The structural realignment will be gradual, but potentially far-reaching.

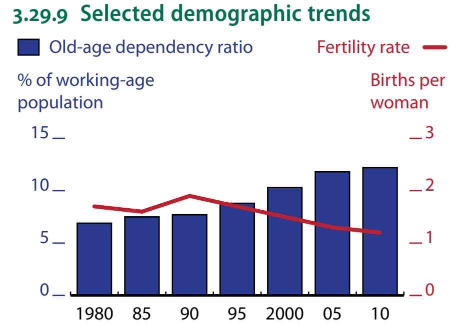
3.29.8 Labor force



Note: Resident refers to Singapore citizens and permanent residents.

Source: CEIC Data Company (accessed 14 March 2012).

3.29.9 Selected demographic trends



Source: World Bank. World Development Indicators online database (accessed 14 March 2012).