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July 7, 2021

**Statement by Mr. Merk and Mrs. Engelmann on Singapore  
(Preliminary)  
Executive Board Meeting  
July 9, 2021**

**We thank staff for the comprehensive assessment and broadly concur with the appraisal.** Singapore's economy has rebounded, also due to the strong policy response by the authorities, after a strong contraction in 2020. While most sectors have already surpassed their 2019 levels of activity, the recovery is still uneven, especially for the construction, transportation and hotel & food sectors. The manufacturing sector proved to be resilient to the pandemic, given a nearly 30 percent growth from Q4 2019 led by electronics. Developments in the labor market were twofold. Due to the wage subsidies to retain local employees, the job market for locals did not see major retrenchments. On the other hand, nearly 200 000 jobs were lost for foreigners, mostly in the service sector. Taking the job losses of foreigners together with the strict entry restrictions that are in place since the beginning of the pandemic, Singapore's hub function might be negatively affected. Thus we see a potential risk for migration of companies.

**Singapore's current account surplus likely reflects the city-state's special role as a hub for global financial and trade flows.** As staff rightly points out, the rapidly aging population encourages savings in Singapore. We also agree with staff that over the medium term, higher government spending for infrastructure, especially to reduce the impact of climate change on Singapore, could help reduce the current account surplus. We take note of the different views from staff and the authorities on whether the REER is undervalued or not and what are the drivers of the current account surplus. Given the long history of current account surpluses, we would welcome additional comments by staff on structural factors that may explain the CA balance over time as well as on the authorities' view that a better understanding of the impact of the pandemic on the CA is still needed.

**The authorities' prudent approach to fiscal policy in the past has enabled a strong and comprehensive policy response to the impact of the pandemic.** We concur with staff that the shift from broad emergency relief to a more targeted support is appropriate. The fiscal measures in May in response to the tightened Covid-related restrictions can be seen as an example in this regard. We agree with staff that a quantification of future fiscal spending needs for a rapidly aging population as well as in response to effects from climate change is needed for a better understanding of the appropriate future fiscal policy mix. In this regard, the implications of the planned GST hike and the planned offsets will need to be evaluated closely. We further agree with staff on the potential usefulness of the introduction of the Significant Infrastructure Government Loan Act. However, regarding the scope/limit of future borrowing, careful consideration should be given to maintaining trust in the authorities' prudent approach to fiscal policy.

**The financial sector appears strong and robust overall and the authorities have made progress in implementing the 2019 FSSA recommendations.** However, some risks remain, as the pandemic has shown. The MAS/Federal Reserve US\$ swap line helped support US\$ liquidity during the crisis. We agree with staff that MAS should continue to strengthen US dollar liquidity among D-SIBs. As Singapore's D-SIBs play an important role with regard to US dollar funding in the region, we would appreciate further analysis on the effects and interdependencies between Singapore's local banks and the banks of the regions. This might provide relevant insights into financial stability of Singapore. Staff correctly points to risks for local banks stemming from smaller enterprises which dominate Singapore's market. More important could be risks from the real estate sector which accounts for three-quarters of Singapore's household debt. Risks from the commercial and residential real estate markets for the banking system should be monitored closely and the authorities should stand ready to act with appropriate measures. While the Additional Buyer's Stamp Duty gives the authorities a useful tool to mitigate a surge in speculative capital inflows (investments by non-residents), we would welcome also continued consideration given to alternative measures in order to reduce risks from overvaluations in the real estate markets more broadly. We call on the authorities to continue their efforts to fully align the AML/CFT regime with international best practices and to enhance the effectiveness of the AML/CFT framework.

**Structural reforms to address the adverse demographics seem to have accelerated due to the pandemic.** The authorities' strategy to raise productivity by facilitating labor reallocation to high-growth sectors and reskilling the workforce is appropriate. We also welcome the focus of the authorities towards a sustainable economy. With the enhanced 2030 Nationally Determined Contribution the authorities have laid out a clear path for future CO2 emissions. At the same time, the increase of the carbon tax from S\$5 [US\$4] to S\$10-15 by 2030 appears modest in the context of international discussions. The introduction of

green bonds for certain infrastructure projects is plausible and could help deepen Singapore's debt market and develop green finance in the financial sector.

**Last but not least, we appreciate that the authorities consented to the publication of the staff report.**