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GRAY/21/1952

July 7, 2021

Statement by Ms. Shortino, Ms. Senich, and Mr. Westphal on Singapore (Preliminary)
Executive Board Meeting
July 9, 2021

We thank staff for this report and Ms. Lim, Mr. Ong, and Ms. Yoe for the helpful Buff statement. Singapore entered the pandemic with extensive fiscal and external buffers, a consequence of cautious policies that have supported domestic stability but have also contributed significantly to global imbalances. The authorities aggressively deployed both fiscal and monetary support to counter the economic shock from the pandemic, helping to buffer domestic activity. Nonetheless, Singapore's longstanding external imbalances and large buffers suggest the need for a bolder and more proactive fiscal policy that can durably support more balanced and broad-based growth. **Going forward, we call on staff to cover Singapore's medium-term fiscal policy framework and external imbalances in much greater depth, including their interaction and implications for global rebalancing.**

We applaud the authorities' use of accommodative fiscal policy to respond to the health and economic effects of the pandemic and encourage a more sustained, structural shift to more growth-supportive fiscal policy going forward. We note in particular the authorities' use of targeted benefits payments in response to the pandemic, which have supported household income and spending while also contributing to a reduction in inequality. However, we are concerned with the rapid pace of fiscal consolidation in 2021. Given the still-large risks to a broad-based recovery from the pandemic, fiscal policy should remain the central tool for countering any near-term shocks. Over the medium term, we encourage the authorities to draw on Singapore's large buffers to increase spending on social protection and priority infrastructure while reducing burdens that weigh on household consumption. Such policies would make growth stronger and more inclusive, bolster domestic demand, and gradually reduce large and persistent external imbalances. We were disappointed that staff declined to undertake their own assessment of Singapore's medium-term fiscal space and how it can be deployed to overcome key challenges (in paragraph 25). Similarly, we would have expected staff to articulate a view on the planned hike in the Goods and Services Tax (GST) and the implications for Singapore's long-term savings and investment balance. *Could staff comment on the proposed GST increase given Singapore's ample fiscal buffers as well as the ongoing risks to economic recovery?*

We were disappointed by the report's thin coverage of external imbalances and urge staff in future assessments to elaborate more fully on the drivers behind Singapore's large and longstanding external surpluses, and to integrate external sector issues into discussions of macroeconomic and structural policies. The report makes only passing references to Singapore's external sector imbalances, even though Singapore continues to run one of the ten largest nominal current account surpluses in the world and staff have consistently assessed the external position to be substantially stronger than warranted. While we broadly agree with staff's recommendation to prioritize spending that will address long-term challenges such as health care and climate change, we encourage staff to do a more complete assessment of the linkages between fiscal policy and Singapore's external sector. We note staff's assessment that policy gaps did not contribute to excessive external imbalances in 2020; however, in previous Article IV reports staff have consistently assessed that Singapore's current account gap reflects in part tighter-than-desirable fiscal policies. This suggests that a normalization of fiscal policy over the medium term would lead to fiscal policy again contributing to the stronger-than-warranted external position. Moreover, given Singapore's exceptionally large fiscal and external buffers, we think the assessment of desirable fiscal policies should take greater consideration of the stock position. *Staff comment would be appreciated.*

We welcome that the Monetary Authority of Singapore (MAS) has increased the transparency of its foreign exchange operations by beginning to disclose its intervention in April 2020. We note that in 2020 MAS made very large FX purchases (28 percent of GDP according to MAS's disclosed intervention) to manage its exchange rate. *Could staff elaborate on the implications of these large FX purchases for Singapore's imbalances and suggest policy recommendations to mitigate the need for sustained FX accumulation going forward?* We would have appreciated significantly more coverage of these issues in the report.

We appreciate that policy support helped Singapore's banks maintain their resilience, though we note that corporate sector risks have increased. We applaud that, despite the pandemic, banks' capital, asset quality, and liquidity position all improved. Nevertheless, we note that corporate debt and corporate debt-at-risk both increased. Recognizing that some of these trends will likely reverse as the global economy continues to recover, we would have appreciated more discussion of any potential spillovers to other sectors or other countries, or other risks to growth that could arise from these corporate sector vulnerabilities.

We welcome the authorities' commitment to reducing carbon emissions and prioritizing climate adaptation measures, and we appreciate staff's discussion of these issues in the report. We also welcome Singapore's leadership in developing a green finance market to support the global transition to a low-carbon future. We encourage the authorities to use their ample fiscal space for sustainable investments to help support the transition toward net zero.