August 24, 2021
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/61-3

3:55 p.m., July 10, 2019

3. Singapore—2019 Article IV Consultation

Documents: SM/19/168 and Correction 1; and Correction 2; and Correction 3; and Correction 4; and Supplement 1; and Correction 1

Staff: Choueiri, APD; Kaufman, SPR

Length: 1 hour, 2 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	I. Mannathoko (AE)
	H. Razafindramanana (AF)
	C. Moreno (AG), Temporary
N. Ray (AP)	
	F. Fuentes (BR), Temporary
	P. Sun (CC)
	A. Guerra (CE)
	P. Mooney (CO), Temporary
	S. Benk (EC)
	A. Castets (FF)
S. Meyer (GR)	
	P. Dhillon (IN), Temporary
	L. Cerami (IT), Temporary
	Y. Saito (JA)
	M. Daïri (MD)
	D. Fadhel (MI), Temporary
	N. Jost (NE), Temporary
	J. Sigurgeirsson (NO)
	L. Palei (RU)
M. Mouminah (SA)	
	K.Tan (ST)
	P. Trabinski (SZ)
	D. Ronicle (UK)
	P. Pollard (US), Temporary

C. McDonald, Acting Secretary
J. Morco, Summing Up Officer
V. Sola, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present

Asia and Pacific Department: O. Brekk, N. Choueiri, L. Jaramillo Mayor, D. Nyberg, J. Yoo. Legal Department: A. Rosha, N. Schwarz. Monetary and Capital Markets Department: R. Bouis, E. Eriksson von Allmen, X. Feng, H. Kang, T. Khiaonarong, H. Oura, G. Sher, C. Wilson. Research Department: C. Rebillard. Strategy, Policy, and Review Department: M. Kaufman, H. Lin.

Executive Director: A. Mahasandana (ST). Alternate Executive Director: M. Psalidopoulos (IT), B. Saraiva (BR). Senior Advisors to Executive Directors: Z. Abenoja (ST), P. Harvan (EC), R. N'Sonde (AF), A. Tivane (AE). Advisors to Executive Directors: W. Al Hafedh (SA), A. Arevalo Arroyo (CE), S. Buetzer (GR), A. Grohovsky (US), U. Latu (ST), K. Osei-Yeboah (MD), C. Wehrle (SZ), S. Yoe (ST), K. Lok (CC), A. Sode (FF).

3. SINGAPORE—2019 ARTICLE IV CONSULTATION

Mr. Tan and Ms. Yoe submitted the following statement:

Introduction

The Singapore authorities would like to thank the Article IV team for a constructive 2019 Consultation. The authorities would also like to express their appreciation to the FSAP team for a rigorous and comprehensive assessment of Singapore's financial system.

Recent Economic Developments and Outlook

Against a backdrop of a slowing global economy and simmering trade tensions, the Singapore economy experienced a step down in growth in Q4 2018 and Q1 2019, following several quarters of above-potential growth. The moderation was driven by weakness in the trade-related cluster, alongside the downswing of the global electronics cycle. Meanwhile, the modern services cluster has emerged as the main support to growth, reflecting healthy demand for IT and platform services. At the same time, some indicators point to a nascent recovery in the domestic-oriented cluster, led by the construction sector.

Since the Article IV mission in May, prospects for the global economy have become even more uncertain. Notably, the ongoing trade conflicts remain unresolved. Should they intensify, global growth would be further impacted through lower business and consumer confidence, alongside more severe disruptions to supply chains. The broadening of the dispute to include cross-border market access for technology firms threatens to damage global growth prospects over the longer term by impeding the diffusion of technology and innovation, which is important for productivity growth.

The Singapore authorities firmly support an open, rules-based and inclusive international trading system which has underpinned not just Singapore's but also much of the world's growth and prosperity. Singapore continues to work closely with like-minded partners to promote and uphold a rules-based international trading system, in support of a predictable trading environment, with both multilateral and plurilateral initiatives playing important roles in this respect.

Against the present challenging external environment, growth of the Singapore economy is currently projected to come in at 1.5–2.5 percent in

2019, down from 3.1 percent last year. The trade-related cluster is likely to face persistent external headwinds, reflecting slower economic growth in Singapore's key trading partners, the ongoing downturn in the global electronics cycle and greater uncertainties arising from trade tensions. The modern services sector is expected to be the key driver of growth, as digitalisation needs continue to support the demand for information & communications and professional services. In the domestic-oriented sectors, the construction-led recovery should extend into H2 2019.

Underlying inflation has moderated in recent months. MAS Core Inflation averaged 1.5 percent y-o-y over the first five months of 2019, compared to the 1.8 percent recorded in the latter half of 2018. This mainly reflected the reduced contribution of energy-related components to core inflation as the sharp decline in oil prices in Q4 2018 filtered through to electricity and gas tariffs, while consumers have also progressively adopted cheaper electricity plans following the liberalisation of the retail electricity market in November last year.

Global oil prices have corrected recently amid concerns about slowing global demand and are projected to average lower in 2019 than in the previous year, while other sources of external inflation are also likely to remain benign. On the domestic front, moderate wage gains supported by firm labour market conditions and the cyclical moderation in productivity growth are expected to contribute to further increases in unit labour costs. However, an acceleration in inflation in the quarters ahead is unlikely against the backdrop of slower GDP growth and uncertainties in the global economy. The authorities expect core inflation to average within the 1–2 percent range for 2019.

Macroeconomic Policies

Singapore's current macroeconomic policy mix has been formulated to take into account the ongoing uncertainties in the international economic environment, so as to secure price stability and sustainable growth in the medium term. We note that staff are in broad concurrence with our policy stance.

Monetary Policy

MAS kept the rate of appreciation of the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) policy band unchanged in April 2019, after two rounds of measured adjustments in 2018 which had set the policy band on an appreciation path, from a 0 percent slope previously. The unchanged policy decision was predicated on MAS' assessment that inflationary pressures would be contained, reflecting the expected easing of Singapore's GDP growth below its potential rate, a benign outlook for imported inflation, as well as the continuing restraining effects from the monetary policy tightening measures undertaken in 2018. The authorities note staff's assessment that the monetary policy stance is appropriately supportive of price stability.

The recent escalation in trade frictions has added to uncertainty and risks to growth. In the short term, the policy band provides sufficient room for fluctuations in the S$NEER to accommodate volatility arising from these trade issues. MAS will continue to closely monitor economic developments including global risk factors. Any adjustments to policy will depend on how the economy evolves, and the latest assessment of inflation and GDP growth prospects.

Fiscal Policy

The fiscal policy stance is estimated to be mildly expansionary this year (calendar year basis), with several measures targeted at supporting households. While fiscal policy is focused on medium- to long-term restructuring, the authorities stand ready to provide fiscal stimulus should economic conditions take a significant turn for the worse.

Budget 2019 reinforced past initiatives with a focus on strengthening Singapore's long-term sustainable growth prospects. The budget measures can be contextualised within a productivity growth framework, in which firms' decisions to invest, adopt technology and innovate—factors which ultimately drive long-term GDP growth—depend on the conditions and incentives facing them. An important implication of this framework is that there may be scope for government intervention when positive externalities and knowledge spillovers exist, or where there are barriers to technology adoption and innovation. Accordingly, the Budget introduced measures to facilitate efficient resource allocation (e.g. reduction in Dependency Ratio Ceilings (DRCs) for the services sector), and to raise productivity levels within firms by incentivising and facilitating capital deepening and technology adoption, including among SMEs (e.g. expansion of Productivity Solutions Grant, SMEs Go Digital programme).

Overall, the Budget continued to ensure that the operating environment, such as the policy and regulatory framework, availability of skilled labour and market size, are conducive for businesses to grow and invest (e.g. one-stop portal for firms to transact with the government, new Professional Conversion Programmes to support the entry of mid-career workers into new growth areas, Enterprise Financing Scheme for SMEs). It is important to note that the government's role in providing a favourable environment for businesses to enhance productivity is carefully designed from a supply-side perspective, and not limited to boosting spending per se. The fiscal resources that have been deployed to promote inclusive growth amid globalisation and technology change have also been considerably increased over recent years. (Please see Section 6 below.)

Financial Sector Assessment Program

The authorities welcome staff's acknowledgement of Singapore's high financial regulatory and supervisory standards, and the further enhancements to the strong framework for financial oversight in recent years. MAS has implemented important reforms which include the Basel III capital and liquidity requirements and enhancements to the framework for crisis resolution and safety nets. MAS is also at the forefront of international efforts to reinforce cyber resiliency, and has taken steps to promote cyber security in Singapore's banking sector. Mitigating and staying ahead of the risks in this rapidly evolving area will remain a key priority for the authorities.

The authorities also appreciate staff's acknowledgement of Singapore's developmental efforts at the forefront of financial technology (FinTech) while balancing regulations to ensure that financial stability, investor protection and financial integrity considerations are not compromised.

Financial System

Stress tests performed by both MAS and the FSAP team reaffirm that banks in Singapore would remain resilient under adverse macroeconomic conditions. In particular, the sizeable capital buffers and strong profitability of major Singaporean banks allow them to absorb the sharp increase in credit losses under FSAP's severe solvency stress test scenarios. This is underscored by staff's acknowledgment of Singaporean banks' higher leverage ratios compared to that for global systemically important banks (G-SIBs), as well as their conservative approach to risk-weighted asset calculation. Further, domestic credit growth has moderated, with household and corporate debt remaining stable and balance sheets resilient with sizeable financial buffers.

Banks in Singapore have adequate liquidity overall, with domestic systemically important banks (D-SIBs) maintaining healthy buffers over minimum regulatory Liquidity Coverage Ratio (LCR) requirements in all currencies including Singapore dollars. Under a scenario of severe macro conditions as well as a significant deterioration in liquidity conditions in foreign currency markets, the stress tests show that banks could face U.S. dollar shortfalls. The authorities have been actively supervising banks on their foreign currency liquidity profiles over the past few years, and the local banking groups have diversified their sources of U.S. dollar funding. The authorities will continue to engage banks through the supervisory process.

Similarly, insurance companies have strong capital positions, though stress tests point to vulnerabilities of the sector to market risks such as credit spread widening and fall in equity prices. Nevertheless, the insurers were able to recover their capital positions through various plans and the authorities have assessed these plans to be adequate.

The authorities strengthened the resolution framework in 2017 through MAS Act amendments to enhance resolution tools and powers used to manage the failure of large, complex financial institutions. Staff have acknowledged that the authorities' resolution framework is broadly consistent with international best practices, as laid out in the FSB Key Attributes for Effective Resolution of Financial Institutions. In June 2019, the authorities published a monograph on Emergency Liquidity Assistance (ELA) in Singapore, to inform on financial institutions' planning for liquidity stress and crisis management, particularly relating to the extent of central bank liquidity support. The authorities also note the FSAP team's assessment that policy effectiveness and governance will be strengthened by its disclosure of the ELA framework.

The authorities have and will continue to ensure that risks posed by financial innovation are appropriately addressed through heightened supervisory intensity. The potential disruptive business impact of FinTech on the financial services sector has largely been internalised by financial institutions (FIs), and most FIs are collaborating with FinTech firms to provide better financial services. Nevertheless, rapid adoption of technology could lead to greater operational, technology-related, and money laundering and terrorism financing risks, and the authorities have taken steps to address these risks. For instance, MAS has made several revisions to its regulations to encourage better IT risk management and resilience, while the enactment of the new Payment Services Act will enhance MAS' powers and regulatory oversight (including its AML/CFT purview) over payment service providers.

The authorities will continue to watch this space closely and make ongoing refinements to regulations and supervision to strike an appropriate balance between risks and opportunities.

Macroprudential Policy

The authorities welcome staff's acknowledgement that Singapore has a strong institutional framework for macroprudential policy which underpins the willingness and ability to act promptly, and the effective cooperation and coordination with other institutions. MAS relies on comprehensive quantitative information for its surveillance and risk assessment, and continuously enhances its systemic risk monitoring framework. The authorities have been proactive in using property-related macroprudential tools, and the analysis by the FSAP team has found that the property market measures have increased the resilience of households and financial institutions against shocks by moderating the pro-cyclicality of credit and residential price developments.

Most recently, on 5 Jul 2018, the authorities raised the Additional Buyer's Stamp Duty (ABSD) rates and tightened Loan-to-Value (LTV) limits on private residential property purchases, to cool the property market and keep price increases in line with economic fundamentals. The measures were carefully calibrated against the backdrop of the strong and broad-based upswing of the property price cycle between Q3 2017 and Q2 2018, and addressed the risks of a destabilising correction. As the strength in demand was evident across all buyer types, a comprehensive package of both tax and credit-based measures was implemented. The authorities gave due consideration to the strong pipeline of private housing supply which will progressively come on-stream over the medium term. The measures, alongside the government's medium-term land supply policies, were assessed to be appropriate to promote sustainable conditions in the private residential property market. There are signs that the implemented measures have helped to moderate the property market cycle but continued vigilance is called for, as macro conditions and market dynamics evolve.

Medium-term Issues

Beyond cyclical issues, the authorities continue to take steps to confront and address various structural issues facing Singapore, including the opportunities and challenges posed by technological advancements, population ageing and climate change. Building on the recommendations by the Committee on the Future Economy (CFE), the authorities have undertaken efforts to promote an innovation-based growth model that seeks to establish Singapore as a global innovation hub, supported by a labour force with deep skills. On the climate change front, Singapore is taking concerted action to reduce carbon emissions in line with the 2015 Paris Agreement through high excise duties on petrol, diesel and compressed natural gas as well as the recently-implemented carbon tax.

As technological advances result in changes in the economic structure and shorter skills-upgrading cycles, Singapore has taken a proactive approach in helping workers and firms remain employable and resilient, respectively. In light of the uncertainties over the pace and impact of technological disruption, it is critical for the labour force to be agile and adaptable. This is facilitated through initiatives such as SkillsFuture which promote life-long learning, and the various measures under the Adapt and Grow scheme that help retrain workers whose jobs are at risk and support their transition to new careers. For businesses, recent policy measures have been aimed at incentivising firms, especially SMEs, to scale up and internationalise, leveraging on private sector partnerships and expertise. Complementary labour policy measures such as the reduction of the foreign worker DRCs for the services sector should encourage greater automation and thus lift productivity.

At the same time, measures are in place to ensure social mobility and inclusivity during this period of transformation. Additional assistance is provided to low-income workers in the form of direct wage support via the Workfare Income Supplement scheme, with higher payouts for older workers. Wage security is ensured in specific sectors through the Progressive Wage Model, which also provides career ladders for job progression and higher wages. Furthermore, social support measures such as the Bicentennial Bonus, Merdeka Generation Package and enhancement of the Community Health Assist Scheme provide additional financial support to those in greater need.

Looking ahead, the authorities expect significant increases in broad-based, recurrent expenditure, such as in healthcare and education, as well as in refreshing and building rail and housing infrastructure. This will accelerate the projected decline in Singapore's public sector net savings as a share of GDP, while households are also expected to draw down on their accumulated savings as the population ages. Both these trends indicate that the current account surplus will be gradually reduced in the next decade.

Final Remarks

Amid elevated uncertainties, the Singapore authorities will carefully monitor global developments and assess how these could impinge on internal balance, encompassing both macroeconomic and financial stability. We stand ready to undertake appropriate policy responses should cyclical developments deteriorate more sharply than anticipated. While external headwinds will slow Singapore's pace of growth in the short term, the authorities remain committed to domestic restructuring, which will enable us to embrace new economic opportunities in the medium term. At the same time, we will ensure that growth remains inclusive for all Singaporeans amid rapid technological change.

Finally, the authorities are pleased to inform the Executive Board that they agree to the publication of the full suite of reports, covering the 2019 Singapore Article IV Consultation Report, Financial System Stability Assessment Report, Detailed Assessment Report on MEPS+ and Technical Notes on Macroprudential Policy, Crisis Management, Resolution & Safety Nets, Financial Stability Analysis & Stress Testing and FinTech Regulation & Supervision.

Mr. Rashkovan and Mr. Jost submitted the following statement:

We thank staff for the comprehensive Article IV and FSSA reports and Mr. Tan and Ms. Yoe for their informative buff statement. We welcome the very strong economic performance of the Singaporean economy. We commend the authorities for consistently implementing sound fiscal and financial policies, which have chiefly contributed to the country's success. We welcome the fact that inequalities are declining and the authorities' continued effort to make sure the economic benefits are shared broadly within society.

We agree with staff that a stable and predictable macroeconomic environment is conducive to growth. Robust institutions have certainly contributed to the recent positive developments. Declining unemployment and increased real income, including in lower income groups, are indicators of this success. The authorities' continued efforts to adjust the economy to emerging challenges is commendable. We believe that investing in human capital and innovation, including in the financial sector, remain of the essence and contribute to economic resilience going forward. In this context, we agree with staff that the authorities should continue to closely monitor the social impact of rapidly changing economic circumstances. We welcome targeted investment in infrastructure and programs to promote workers skill acquisition, as well as active labor market policies more broadly.

In our view, maintaining adequate policy buffers remains relevant, given that Singapore, as a highly interconnected economy, is exposed to a large range of external risks, as highlighted in the RAM. This includes the risks linked to the important financial sector as assessed in the FSSA. Heightened trade tensions and their bearing on global growth are also of concerns and could impact economies like Singapore disproportionally. On the domestic side, we welcome the recent macro-prudential measures to manage real estate risks but would like to encourage the authorities to continue monitoring developments closely. More generally, we appreciate the authorities' long-term horizon policy approach. We welcome that the authorities acknowledge climate change as a main challenge as well as their commitment to emission reductions under the Paris Climate Agreement. In this context we appreciate staff's analysis in Annex VI. The October 2018 Fiscal Monitor looked at government balance sheets more broadly and assessed related risks, which we found most useful. In this context, we would be interested to hear from staff whether they looked at risks to government assets in case one or multiple risks were to materialize? Does staff consider this would substantially impact the favorable fiscal position?

The report seems to suggest that Singapore should further increase spending ("deploy more fiscal space") to address challenges including ageing and climate risks. Regarding ageing costs, which are an important risk, we remain to be convinced that long-term spending pressures should be tackled by using current fiscal room for maneuver. The report qualifies age-related spending pressures as "substantial". Annex V explains that the government will need to take on a larger share of the cost burden to preserve affordability. From our perspective, keeping adequate fiscal buffers to address long-term spending needs, as outlined in the authorities' views, seems to be an appropriate policy stance. Regarding costs related to climate change, it appears that authorities are aware of the risks, and are investing/planning to invest into increasing climate resilience by inter alia upgrading the relevant infrastructure (in addition to addressing mitigation). We would kindly ask staff where they see the need to increase spending to address those two specific medium- and long-term risks more proactively at the current juncture?

We welcome staff's conclusion that the financial sector continues to perform well, given its systemic relevance. We are also pleased to see that staff deems the regulatory and supervisory framework to be strong. Adequate capital rations and profitability and low NPLs are a testimony to the strong performance of the financial industry in Singapore. We are pleased that the innovation efforts of the authorities do not pose a risk to financial stability as highlighted in the Article IV report and FSSA. We concur with staff that close monitoring of ML/TF risks is of vital importance. We agree with staff that cyber risks should continue to be actively addressed.

Mr. Meyer and Mr. Buetzer submitted the following statement:

We thank staff for their comprehensive assessment and broadly concur with their appraisal. We also thank Mr. Tan and Ms. Yoe for their very comprehensive buff statement. After years of very strong growth, Singapore's growth has started to moderate with risks tilted to the downside. To address these downside risks we agree with staff on the necessity to address medium-term challenges, in particular those stemming from the impact of aging and technological change, through an appropriately geared reform agenda while maintaining prudent fiscal and monetary policies that have served the country well. We are reassured by the authorities' strong commitment to all of the above, as laid out in the staff report and as also expressed in the buff statement.

Singapore's high current account surplus and corporate savings reflect its role as a global trading and financial center. Moreover, the large stock of household savings is a result of mandatory savings for pensions and healthcare as well as additional precautionary savings in response to ageing. While we take note of staff's assessment that the external position is substantially stronger than warranted by fundamentals, this assessment is subject to large uncertainty. Staff's assessment of an undervalued REER relies on highly uncertain estimates of the underlying CA norm and the semi-elasticity of the CA with respect to the REER. Still, we broadly concur with staff's view that the authorities' plans to significantly increase spending related to healthcare, education, and infrastructure should contribute to a gradual reduction of the current account surplus.

The primary focus of fiscal policy is appropriately designed to raise productivity, reduce inequality, and promote social mobility. The authorities are committed to meet these spending requirements with a combination of raising tax revenue for current spending and, where appropriate, borrowing for critical major infrastructure projects. Staff argues that Singapore's fiscal space could be used to support growth in the short run by higher spending. We tend to agree with the authorities that at the current juncture fiscal policy should remain focused on medium to long-term objectives and that greater discretionary spending should be reserved for the event of a severe economic downturn. In this context, we take positive note that the authorities have identified a number of possible stimulus measures which could provide a sizable boost to domestic demand, even considering the country's highly open economy and associated leakages from public spending.

The Monetary Authority of Singapore's (MAS) recent decision to put monetary policy tightening on hold appears appropriate. Core inflation has stabilized as the previously positive output gap has closed. We appreciate the MAS' efforts to increase transparency about its monetary policy framework and operations, including data on net purchases of foreign exchange.

We welcome staff's assertion that Singapore's financial sector remains healthy, well regulated, and supervised. At the same time, systemic risks, particularly in the housing sector, require continued vigilance. While housing prices still appear moderately overvalued, the authorities' recent measures and macroprudential policies have helped to curb credit and house price growth. Given increasing cross-border lending activities by Singapore's banks, we agree that an active monitoring of this development and associated risks is needed. As regards the AML/CFT regime, we call on the authorities to increase their efforts to fully align it with international best practices. In this context, we share staff's recommendation that the balance between supervision and promoting financial innovation should be improved, particularly with view to the outsourcing of critical functions from banks to FinTechs.

Staff mentions that liquidity stress tests reveal a vulnerability in US Dollar liquidity. Given these results and mindful of the importance of the US Dollar, staff advises banks to strengthen their foreign exchange liquidity. In this context, could staff comment on whether other currencies could usefully complement bank funding and thereby reduce the dependency of Singapore's banks on the US Dollar?

Structural reforms are appropriately geared towards addressing medium-term challenges associated with the growth impact of aging and technological change. The authorities introduced several programs which should help to ease the burden of the transformation of the country's economy into a global innovation hub for both households and firms. We share staff suggestion that Singapore should increase awareness and incentivize uptake of these programs in the population to ensure effective implementation. We take positive note that Singapore's comparable low market income inequality stems less from redistribution but more from improved human capital, employment prospects, and social mobility while the promotion of homeownership for low-income households contributes to higher and broadly shared equity.

Mr. Geadah and Ms. Fadhel submitted the following statement:

We thank staff for the comprehensive set of reports and Mr. Tan and Ms. Yoe for the helpful buff statement. Singapore's strong economic performance over the last couple of decades significantly elevated its income per capita. Its open economy, highly dependent on trade related sectors and modern services, has benefited from its integration with the global supply chains and financial markets, but also made it vulnerable to turbulences in global markets. Risks to its near-term economic outlook are tilted to the downside due to a slowdown in global growth and rising trade tensions. We broadly concur with the staff's appraisal.

Singapore's fiscal surpluses have contributed to ample fiscal buffers. As suggested by staff, this fiscal space could be used to provide stimulus to the economy in the event of a downturn. These buffers can also be used to meet medium- and long-term challenges related to healthcare, an aging population, inequality, climate change, technological innovation, and aging infrastructure. In this connection, we commend the authorities for the measures to support inclusiveness, including the Bicentennial Bonus, the expansion of healthcare schemes, and the programs designed to encourage employment of older workers. We see merit in staff's recommendation for government borrowing to fund long term infrastructure projects given the low cost of borrowing and the ample fiscal space. We would also encourage more social and labor programs to help protect the most vulnerable from technological changes.

Singapore's financial sector has become an important hub for financial innovation. Its capital ratios exceed the regulatory minima, non-performing loans are low, and it is governed by a strong regulatory and supervisory framework. The FSAP analysis of cross-border bank lending suggests that Singapore is most exposed to inward spillovers from major advanced economies, and that Singaporean banks can be an important source of spillovers to other ASEAN countries. Therefore, the authorities should remain vigilant to potential risks stemming from interlinkages with global and regional financial sectors. In this context, strengthening banks' foreign exchange liquidity should be a priority. We commend the authorities for the strong policies and oversight frameworks that helped maintain a healthy financial sector. The support to financial innovation while preserving macrofinancial stability is laudable, but vigilance is warranted to help mitigate ML/TF and cyber risks.

The private housing market showed signs of overheating during 2017-18. We commend the authorities for the macroprudential measures taken to ease the increase in real estate prices including the tightening of LTV limits, raising the Additional Buyer's Stamp Duty (ABSD), as well as increasing the private residential supply through 2023. We encourage the authorities to maintain their vigilance over the real estate sector. Staff recommends eliminating residency-based differentiation in the ABSD. We would be interested in additional information on the rationale for this recommendation and the authorities' reaction to it.

Singapore's Nationally Determined Contribution to the 2015 Paris Agreement on climate change is to reduce emissions by 36 percent from 2005 levels by 2030. We commend the authorities for being one of the first countries to take action toward reducing its greenhouse gas emissions, including the adoption of a carbon tax in 2019 and the move from fuel oil to natural gas in electricity generation which helped reduce emissions by 37 percent between 2000 and 2014.

Mr. Lopetegui and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the report and the financial system stability assessment (FSAP), and Mr. Tan and Ms. Yoe for the comprehensive buff statement. Singapore's social and economic performance for the past decades is admirable, with strong per-capita income growth and, notably, a decline in inequality since the GFC. New development strategies are in motion to promote intensive use of digital technologies and automation, while safeguarding greater equity.

The quality and credibility of Singapore's institutions assure good management of short- term economic challenges. Fiscal, monetary, and financial policies are appropriate for the current juncture. The authorities are aware of current external risks posed by trade tensions, financial tightening, and shifts on investors confidence. Given the economy's important buffers, these risks seem manageable. We go along with staff advice to closely monitor and strengthen banks' overall liquidity positions, specifically in the US dollar segment, since the recent FSAP's liquidity stress testings reveal some vulnerability. There is significant fiscal space to address medium-term challenges, included related to aging, climate change, and infrastructure renewal.

Macroprudential measures in the financial system are working as planned. House overvaluation was a concern and the authorities took swift policy decisions to minimize systemic risk. Among the different measures taken, the Additional Buyer's Stamp Duty (ABSD) for residential property purchases was assessed by the Fund as a CFM/MPM. According to the report, the ABSD application is not the same between residents and non-residents. Could staff share more information on other countries cases with similar characteristics on how are they dealing with house prices overvaluation?

An ambitious plan to digitalize and transform the economy is underway; it will affect the medium-term horizon. The sizable savings of households and government provides the needed space for society to gear the transformation of the new growth model. The role and responsibility of the Committee on the Future Economy (CFE) to transform the country to an innovation-based economy and safeguard social policies is enormous. Past policies on housing, pension, and health safety net outcomes were encouraging in enhancing greater equity. It caught our attention that on top of the social coverage and sizable household positive net asset position (around 380 percent of GDP), households are still motivated to accumulate savings. We will appreciate some ideas from staff on savings propensity by households.

The outcomes of the health care system are impressive. We thank staff for appendix V "Aging and healthcare spending". It is remarkable how the system provides quality results at a fraction of the cost, compared to its peers. Health life expectancy (HALE) at birth is the highest in the world, with one of the largest improvements among advance economies. What is more striking is that Singapore reached these results spending 4.5 percent of GDP on health, rather than 9 percent of GDP on most advance economies.

With these comments, we wish Singapore and its people all the best in their future endeavors.

Mr. Kaya, Mr. Benk and Mr. Mehmedi submitted the following statement:

We thank staff for the candid and comprehensive reports, and Mr. Tan and Ms. Yoe for their in-depth buff statement. We commend the Singaporean authorities for their prudent macroeconomic policies and impressive growth performance in recent years, which has lifted GDP per capita while promoting grater equity. Nevertheless, with growth somewhat slowing and risks to the outlook being tilted to the downside, including downside risks stemming from rising trade tensions between the US and China, the accommodative fiscal policies should be complemented by the steadfast implementation of structural reforms to address structural bottlenecks. This will pave the way for a gradual but full transition to knowledge-based growth, while transforming Singapore into a global innovation hub. We broadly share staff's assessment and policy recommendations, and would like to make the following comments for emphasis.

The authorities should use the existing fiscal space to address medium-term and long-term headwinds while reducing inequality. In this vein, increasing spending on the maturing infrastructure, aging-related healthcare services, climate change, and technological shifts are warranted to help ease supply constraints and facilitate external rebalancing. Should downside risks materialize and the output gap turn negative, fiscal policy should be the first line of defense, given the large buffers. However, further fiscal expansion should not be motivated primarily by the need to close the identified current account gap. Considering that the net investment returns contribute the most to government revenues, accounting for about one-fifth of revenues in 2018, we see merit in considering increasing the goods and services tax (GST) from 7 percent to 9 percent ahead of schedule. Staff's comments on how the GST rate in Singapore compares to its peers are welcome. Could staff also comment on the introduction of the carbon tax which came into effect at the beginning of this year?

The current monetary stance remains appropriate and we welcome the recent steps taken to enhance transparency and communications about the monetary policy framework. Given that the output gap is now closed, growth is moderating, and core inflation has stabilized, the current neutral monetary stance remains appropriate. The Monetary Authority of Singapore's (MAS) decision to release information about its monetary policy operations, including the semi-annual data on net purchases of foreign exchange, is a step in the right direction. However, we see further scope to enhance the transparency in the conduct of monetary policy without compromising the operational effectiveness of the MAS' monetary policy. We recognize that Singapore's strong external position is due to its global financial center status, prudent fiscal policies and sustained fiscal surpluses, as well as the buildup of assets.

Pockets of vulnerabilities in the financial sector stemming from banks' vulnerability to US dollar liquidity, overvalued housing prices, and cyber risks should be carefully monitored and addressed. We commend the authorities for implementing numerous reforms aimed at addressing the recommendations of the 2013 Financial Sector Assessment Program (FSAP), which have further strengthened the financial oversight framework and increased the attractiveness of Singapore as a financial center. At the same time, we welcome the 2019 FSAP findings which note that the financial sector remains healthy with adequate buffers and strong balance sheets for banks, households, and corporates, and is resilient even under adverse scenarios. Nonetheless, considering the FSAP's cash flow stress tests finding that banks' US dollar liquidity is vulnerable to stress conditions, we encourage the authorities to strengthen banks' foreign exchange liquidity. The recent tightening of macroprudential measures is a welcome development, as it has slowed mortgage credit and price growth in the private housing market. However, given that house prices remain overvalued, we concur that these measures should be maintained until systemic risks subside, while reconsidering phasing out the differentiation between residents and non-residents in the Additional Buyer's Stamp Duty, which staff assesses as a capital flow measure. We would welcome staff's comments on the property valuation system, particularly when it was last conducted and whether its reform could potentially further cool off the housing market. The authorities' efforts to make Singapore an important hub for financial innovation – including Fintech – are commendable, and will require concerted efforts to strengthen cyber resiliency, including by implementing the 2018 Cybersecurity Act. Staff's comments on the authorities' planned application of AML/CFT measures payment service providers and how these measures would address transnational ML/FT risks are welcome.

Transitioning to a knowledge- and innovation-based growth will entail a structural reform agenda appropriately geared towards addressing population aging and increasing productivity. In this vein, we welcome the authorities' initiatives and programs on enhancing automation and innovation, including the 23 Industry Transformation Maps, but note that small- and medium-sized enterprise engagement in these initiatives should be enhanced. Policies stimulating human capital accumulation and addressing skills mismatches are equally important to boost productivity and further raise living standards. At the same time, there is scope to increase resident female labor force participation through improved family care policies. We take note of the authorities' plan to gradually tighten foreign labor limits in the service sector, but wonder whether the plan may lead to short-run rigidities in the labor force.

Ms. Levonian, Ms. McKiernan and Mr. Mooney submitted the following statement:

We thank staff for their informative reports and Mr. Tan and Ms. Yoe for their helpful buff statement. The economy of Singapore is growing while income inequality continues to decline. The authorities remain committed to implementing measures to turn Singapore into a global innovation hub, while simultaneously updating social policies. However, as a small open economy Singapore faces downside risks such as global trade tensions and volatile global financial conditions. We agree with the thrust of staff's assessment and offer the following points for emphasis.

While fiscal policy is focused on medium to long-term restructuring, we positively note that authorities stand ready to provide fiscal stimulus, should economic conditions take a significant turn for the worse. In the medium to long term, we agree with staff that authorities should remain ready to deploy Singapore's fiscal space to address challenges such as the rejuvenation of the public housing stock and the displacement of low-skilled workers due the adoption of new technologies. We commend the authorities for their relatively low expenditure on healthcare vis-à-vis other OECD countries, while having the highest healthy life expectancy in the world. Nonetheless, Appendix V notes that Singapore's old age dependency is due to increase rapidly, and authorities should plan for having to take on a larger share of the healthcare burden going forward. The forthcoming increase in the goods and services tax (GST) may assist in this regard.

We welcome staff's positive assessment around the financial sector. We positively note the strengthening of capital and liquidity frameworks in line with Basel III, as outlined in the FSSA. However, we concur with staff's view that the resolution framework should be enhanced, including by strengthening the MAS' Resolution Unit and developing guidelines for the new resolution tools. On fintech, we welcome the implementation of a regulatory sandbox by MAS, as well as similar initiatives in this space. We agree with staff that MAS will have to closely monitor potential reputational risks in this regard. We welcome the findings of the Mutual Evaluation Report (MER) which found AML/CFT efforts in Singapore to be highly coordinated and sophisticated with a strong focus on enforcement activity.

We welcome measures introduced by the authorities to support inclusive growth, including the "Bicentennial Bonus" and measures to encourage employment of older workers. We positively note the measures taken by the authorities to date to promote an innovation-based growth model that seeks to establish Singapore as a global innovation hub, supported by a labor force with deep skills. However, we note in Box 2 the analysis that the probability of automation among women is estimated at 36 percent, 6 percent higher than among men. Can staff confirm whether the "Adapt and Grow" scheme focuses on upskilling female workers who may be affected by automation? In terms of climate change, we positively note that Singapore has recently introduced a carbon tax and is on course to meet its commitments under the Paris Climate Agreement. This is particularly impressive given that Singapore has limited access to renewable energy, as outlined in Appendix VI of the report.

Mr. Sigurgeirsson and Mr. Damgaard submitted the following statement:

We thank staff for their reports and Mr. Tan and Ms. Yoe for their informative buff statement. Singapore's economic performance has been impressive, aided by sound macroeconomic and financial policies. As a very open economy, Singapore is highly exposed to external risks such as the ongoing global deterioration in the trade and investment climate. The authorities should monitor these developments closely and stand ready to act if needed. We broadly agree with staff's appraisal and offer the following points for emphasis.

We commend the authorities for the longstanding principles of fiscal sustainability. As a result, Singapore has built significant fiscal buffers that can be deployed to address the challenges of aging, infrastructure needs, climate change, and technological change. A projected fiscal surplus, excluding land sales of 0.8 percent of GDP and a mildly contractionary fiscal stance in FY2019, leave the authorities with room to maneuver should downside risks materialize. We note that the authorities intend to raise the goods and service tax (GST) from 7 to 9 percent in 2021-25 as a response to increasing healthcare costs. The timely planning of fiscal adjustments promotes transparency and predictability.

Singapore's financial system is stable and resilient to adverse scenarios. Given Singapore's status as an international financial center with a large banking sector, we welcome the strong supervisory framework that underpins the financial sector. However, while bank capitalization seems to be adequate, we encourage the authorities to focus on strengthening the U.S. dollar liquidity as recommended by staff. The GFC highlighted the need for not only sufficient capital buffers, but also considerable liquidity safeguards. We commend the authorities for adopting the 2018 Cybersecurity Act. Cyber security is an increasing threat to financial stability, and the mitigation of risks should maintain a high priority. The authorities have shown the ability and willingness to use macroprudential tools to suppress the build-up of financial vulnerabilities, for instance related to the rapid increase in property prices. While staff suggests that macroprudential policies could be eased should downside risks materialize, does staff see a potential need for the implementation of additional macroprudential initiatives in the baseline scenario? And what is the assessment of the calibration of the tools used so far?

We welcome that the authorities are embracing new technologies and digitalization while at the same time focusing on training and social support for those in need. The government programs to encourage companies, especially SMEs, to digitalize and internationalize their operations are expected to boost productivity. At the same time, the generous support for lifelong learning and reskilling promotes an inclusive society with a reasonable degree of social mobility. Income inequality has come down but remains higher than among peers. We agree with staff that aging and technological transitions are likely to exacerbate income inequality and should continue to be monitored closely. We also welcome the concerted action Singapore is taking to reduce carbon emissions in line with the 2015 Paris Agreements.

Mr. de Villeroché, Mr. Castets and Mr. Sode submitted the following statement:

We thank staff for the quality of their reports and Mr. Tan and Ms. Yoe for their insightful buff statement. Singapore economic performance continues to be impressive. We commend the authorities for their capacity to design and implement an ambitious reform strategy which aims at harnessing the benefits of technological change and innovation. While we found that the report brings valuable insights on various policy dimensions, we would like to highlight a number of issues:

Given the substantial fiscal space, the important public investment needs in climate resilient infrastructures and housing, as well as Singapore high level of income and wealth inequalities, fiscal policy could be used more proactively to create the conditions for a balanced, sustained and inclusive growth. While we commend the authorities for the recent measures adopted to make fiscal policy more progressive, we still think there is ample room to make the tax and benefit system more redistributive. That would contribute to support domestic demand given the higher marginal consumption propensity of households at the lower end of income distribution, and so contribute to external rebalancing. In addition, our understanding of staff analysis is that an increase in debt-financed public investment would be beneficial for Singapore. However, this recommendation is not clearly spelled out in the report while a call for a more expansionary fiscal policy appears warranted by the underlying situation, including Singapore’s large current account surplus. In this regard, we are somewhat skeptical of the use of the ageing argument to justify existing or growing fiscal reserves notably when projected age-related spending appears of lower magnitude than current fiscal reserves according to medium term forecasts.

Singapore current account surplus remains very high and we would have expected a more in-depth analysis in the report. First, we note that the current account norm derived from the EBA methodology is very high (around 14 percent of GDP). As expressed last year, we remain skeptical of the inclusion of the NFA variable in the EBA regression as it mechanically implies that countries with persistent current account surpluses would tend to have higher current account norms. Second, we would have like staff to discuss in more details the role of profit-shifting practices by multinationals as a possible driver of the current account surplus. As highlighted in the External Sector Report, "efforts to identify the role of multinational companies in current account transactions, as well as improving data availability of global value chains and on offshore centers and special purpose entities" are essential to correctly analyze external positions. Could staff elaborate on the role of being a financial center and of profit shifting practices by multinationals to explain Singapore current account surplus?

We commend the authorities for their strong supervision and oversight of the financial system as highlighted in the FSSA. Given its role as an international financial center, it is of the utmost importance for Singapore to adopt and effectively implement the highest AML/CFT standards both in the traditional financial sector and its developing fintech part. In particular, building on the recent efforts to strengthen the AML/CFT framework described in the FSSA, could staff be more specific on the main AML/CFT areas where Singapore needs further progress and notably detail the remaining gaps in terms of beneficial ownership information? Regarding fintech, we strongly encourage the authorities to apply strict AML/CFT requirements to its regulatory sandbox approach notably by addressing outsourcing-related risks and strictly implementing the Financial Action Task Force (FATF) standard on digital tokens. As highlighted in the report, authorities should pursue efforts to bring custodian wallet service providers within its AML/CFT purview and ensure that the AML/CFT framework also applies to corporate digital token service providers created in Singapore.

We commend the authorities for their policies to support employment and labor productivity. Annex VIII of the report shows that Singapore active labor market policies are particularly ambitious and have a strong positive impact on employment outcomes. These policies could be a model for other economies and we encourage staff to disseminate the knowledge of these good practices within the Fund. Regarding the revenue of low-wage workers, and given the risk that employers use in-work benefits to lower actual wages mentioned paragraph 10 of Annex VIII, we would be interested if staff could elaborate on the possibility of raising the minimum wage? We also encourage the authorities to carefully monitor working conditions of low-wage workers, notably foreign domestic workers who are currently excluded from the legal protections provided by the Employment Act. We strongly encourage the authorities to adhere to the 2011 ILO Convention on domestic workers.

We commend the authorities for the implementation of a broad base carbon tax and thank staff for their analytical work on the crucial issue of climate change adaptation and mitigation. Could staff elaborate on the additional reforms it recommends to further strengthen climate change resilience in Singapore and reduce the carbon footprint of its economy?

Mr. Saraiva and Mr. Fuentes submitted the following statement:

We thank staff for the papers and Mr. Tan and Ms. Yoe for the helpful buff statement. Singapore continues its impressive performance buttressed by strong economic fundamentals and sound macroeconomic policies. Labor market conditions has tightened further reflecting lower unemployment and inflation remained subdued with moderate pressures from higher energy prices. Nevertheless, after several quarters of above-potential growth, economic activity has been losing traction mostly due to the weakening external demand. We concur with staff that the current policy mix is appropriate and encourage authorities to maintain a proactive approach to preserve macroeconomic stability, while continuing to tackle remaining developmental challenges.

Fiscal position remains strong and sustainable. Singapore continues to operate under a strong medium-term fiscal framework using policy tools judiciously, often overperforming its fiscal rule and contributing to a systematic buildup of net assets. Moreover, the returns on government assets have been commonly directed to support the social and investment expenditure in the budget. For FY2019, budget projects a sizeable surplus while proactively incorporating measures to help address the expected rise in healthcare-related expenditures for an aging population. In the near term, however, with less support from external demand, authorities should consider the possibility of using existing space to provide fiscal stimulus, supporting infrastructure and social investments as appropriate.

We commend the Monetary Authority of Singapore (MAS) work in safeguarding the financial system. Singapore has become a major global financial hub, hence highly exposed to cross-border spillovers at the regional and global levels. Under these circumstances, the strong oversight and active guidance of the MAS has been critical to suppress emerging threats to financial stability while fostering innovation and resilience. As recommended on the 2013 FSAP, the MAS Act was strengthened to clarify its mandate and prioritize prudential supervision over development objectives. While overall banks solvency and profitability remained well-positioned vis-à-vis other financial centers, we see merit in staff recommendation to reinforce banks' foreign exchange liquidity, considering the importance of dollar funding and liquidity for Singapore's economy. In this regard, we take positive note of the information provided by Mr. Tan and Ms. Yoe that, under the authorities' active supervision, local banks are diversifying their sources of US dollar funding.

Downside risks will continue to emanate from challenging external conditions. As a highly open economy with significant trade linkages, further escalation of the ongoing trade tensions and slower growth in the Chinese economy could weigh on heavily on Singapore's growth prospects. The country's trade-related cluster has been decelerating since 2018 and will continue to face the impact of external uncertainty and the maturing global tech cycle. Furthermore, authorities have cautioned about the broadening of the trade dispute to the technology front, considering the impact of potential moves to restrict the supply of critical technologies, which could potentially lead to significant disruptions in global value chains. That said, the country is well prepared to face external shocks and deal with deteriorating external conditions.

Authorities are fully committed to supporting climate change mitigation efforts. The Government is planning to boost infrastructure investment and implement additional measures to protect itself against global warming and rising sea levels. In that vein, we welcome Singapore's adoption of a carbon tax in line with its commitments under the Paris Climate Agreement. Carbon tax revenue is expected to help fund other emissions moderation measures. Moreover, considering Singapore's limited access to renewable energy, we commend the country's effort to increase solar deployment and boost the use of renewable energy, including expanding the use of public transportation.

Mr. Trabinski and Ms. Wehrle submitted the following statement:

Singapore's economy has performed strongly in the past years, but growth dynamics have recently eased. We commend the authorities for a sound macroeconomic framework, which has allowed the economy to grow in a rapid, yet stable manner for many years. Although domestic fundamentals remain strong, growth momentum has recently slowed due to a less favourable global economic environment. As a highly open economy, Singapore is subject to greater volatility. External downside risks include an economic slowdown of important trading partners, such as China, geopolitical tensions, and a potential tightening of global financial conditions. Domestically, measures to cool the property market have been effective, but risks related to an overvaluation in the housing market have not fully subsided.

Singapore should maintain its strong fiscal position and buffers. Prudent fiscal policy has allowed Singapore to build up ample buffers over the years, thereby bolstering the economy's resilience and long-term stability. The focus on social policies, such as expanding healthcare schemes and raising support for older workers and low-income families, is also useful to continue reducing income inequality. We take note of staff's suggestion to deploy more of Singapore's fiscal space. Nevertheless, considering that current challenges stem mainly from external factors, we share the authorities' view that higher public spending would not be very effective. We would see merit in preserving fiscal buffers to ensure a heightened resilience of the economy in uncertain times and to better address the medium-term spending needs related to population ageing, infrastructure maintenance, and climate change. Moreover, we welcome the authorities' intention to raise the goods and services tax over the medium term to cover impending healthcare spending increases.

The current broadly neutral monetary policy stance appears warranted. Last year's policy tightening by the Monetary Authority of Singapore (MAS) has moved the policy stance close to neutral. According to the MAS, the recent GDP growth moderation has brought the level of output closer to its underlying potential. We agree with the assessment that inflationary pressures are mild and should remain contained. Given these factors, the policy stance appears appropriate for the time being.

Continued risk monitoring is key to safeguard the stability of Singapore's large financial sector. The financial sector is supported by a sound regulatory and supervisory framework, which has helped prevent the build-up of systemic risk. We welcome that the FSAP stress test results confirm the strong capacity of the major banks to absorb credit shocks. Meanwhile, considering staff's findings of U.S. dollar liquidity shortfalls in a number of D-SIBs, we see merit in strengthening banks' foreign exchange liquidity. With respect to the prevailing overvaluations in the housing market, we support staff's recommendation that both structural macroprudential policies and cyclical measures should remain in place until these risks have subsided. The authorities should in particular move towards phasing out the residency-based differentiation in the ABSD once risks dissipate.

The authorities should continue to promote innovation while being mindful of risks. We commend the authorities for their proactive approach to position Singapore as a global innovation hub. Measures to drive digitalization and technology adoption by businesses and the government, as well as initiatives such as lifelong learning and skill enhancement for individuals, are important elements of this strategy. We take good note that, so far, (i) fintech developments do not appear to contribute significantly to systemic risks, and (ii) Singapore has been able to embrace the opportunities of financial innovation without compromising financial stability, investor protection, and financial integrity. We encourage the authorities to continue their efforts to foster financial innovation and fintech, while ensuring a vigilant approach to monitoring and, if warranted, addressing potential risks. In this context, we support suggestions, e.g., to promote high-quality investor education and enhance protection against cyber security risks.

Mr. Psalidopoulos and Ms. Cerami submitted the following statement:

We thank staff for their comprehensive set of papers and Mr. Tan and Ms. Yoe for their informative buff statement. We welcome Singapore's strong economic performance and support the authorities' focus on promoting inclusiveness and innovation. We broadly concur with staff's appraisal and policy recommendations and take positive note that recent policies have been consistent with past Fund's advice.

Fiscal policy should remain focused on medium to long term challenges. The ongoing transformation driven by technological and demographic changes, which the authorities are addressing by stepping up several initiatives to foster investment and technology adoption, and to support inclusiveness, will require additional spending. The authorities intend to raise broad-based recurrent tax revenue, such as the envisaged increase in goods and services tax, for recurrent spending, and to study the option of using government debt to finance long-term infrastructure projects. We find the authorities' fiscal strategy appropriate, including the increased contribution of the return on government assets to budget financing, in line with past Fund advice, as well as their willingness to provide fiscal stimulus in case of an economic downturn. The authorities should also be commended for their proactive approach to climate change by switching electricity generation from fuel oil to natural gas and introducing a carbon tax on large emitters of greenhouse gas.

The monetary policy framework has worked well, is more transparent, and has been supported by prompt macroprudential measures. The neutral monetary policy stance, following the tightening of the exchange rate band in 2018, remains appropriate. We welcome the recent decision of the Monetary Authority of Singapore (MAS) to enhance transparency by releasing data on net purchases of foreign exchange on a six-month aggregated basis. We also appreciate MAS measures to contain systemic risks arising from the housing market, including the most recent refinements of the Additional Buyer's Stamp Duty and loan-to-value limits on private residential property purchases, reported in the buff.

The conclusions of the 2019 FSAP are encouraging, but strong vigilance remains key to preserve Singapore's status of global financial sector at the forefront of innovation. The financial sector has been assessed as robust with large capital and liquidity buffers, although banks' foreign exchange liquidity should be strengthened. The regulatory and supervisory frameworks have continued to evolve and adapt to changes in the international standards and financial innovation. In this respect, we appreciate the focus of the FSAP on cyber security and fintech developments and are encouraged by staff's assessment that MAS has found a good balance between promoting financial innovation and preserving financial stability, investor protection, and financial integrity. While we encourage the authorities to remain supportive of innovation and vigilant about emerging risks, we support staff's recommendation to strengthen the oversight of outsourcing arrangements and of payment systems, which appear particularly exposed to technological changes and innovation.

Structural reforms are progressing within the framework launched in 2017 to address the challenges posed by technological change and aging. Active labor market policies play a central role in this context and have so far proven successful in raising employment and income levels. High employment rates and short unemployment duration as well as rising income levels and high social mobility are clear measures of success. Most notably, the positive impact of active labor market policies is visible in the lower market income inequality compared to most advanced economies. However, disposable income inequality remains higher, pointing to the need for closely monitoring the impact of in-work benefits on wages especially among low-skilled workers, to ensure that productivity gains are broadly shared and aligned with wages.

Mr. Sun and Ms. Lok submitted the following statement:

We thank staff for the comprehensive set of reports and Mr. Tan and Ms. Yoe for the helpful buff statement. We commend the authorities for their sound policy management, which has supported Singapore's stellar macroeconomic performance over the years. As a highly open economy and financial center, Singapore is subject to influences from the external environment. It is therefore important for the authorities to remain vigilant and continue their effective policies to safeguard resilience to external shocks while tackling domestic challenges as the country's economic transformation proceeds. We broadly share the main thrust of staff's appraisal and would limit ourselves to the following comments.

In the face of ongoing uncertainties surrounding the global economy and outlook, it is important for the authorities to maintain a prudent policy mix to buffer against potential volatility and sustain growth. We welcome the authorities' monetary and fiscal policies, as well as their firm support for an open, rules-based and inclusive international trading system. In the longer term, we take positive note of the authorities' measures to ensure a favorable business environment and facilitate adjustment to structural changes in Singapore associated with technological advancements, population aging, and climate change. In particular, it is critical for the authorities to maintain a close watch on the transformation process and sustain efforts to mitigate the adverse effects of displacement and reduce income inequality. Given the fast-changing nature of technology and innovation, we share the authorities' view that it is important for a labor force to be agile and adaptable to technological advancements and changing industry needs, and welcome the authorities' various initiatives in this regard.

As a major financial center for the region and highly integrated into the international financial system, Singapore is exposed to both global and regional macrofinancial shocks. We take comfort from the FSAP assessment affirming that the main parts of Singapore's financial system would remain resilient even under adverse macroeconomic conditions, and are pleased to note that Singapore's strong oversight framework remains "among the best globally". That said, the FSAP exercise has identified potential vulnerabilities under stressed conditions in USD liquidity and in parts of the insurance sector. We trust that the authorities will remain vigilant and continue to further perfect their oversight system to safeguard stability of Singapore's financial system.

Singapore is at the forefront of fintech, and the authorities have so far managed to strike a sound balance between promoting innovation on the one hand and safeguarding financial stability and security on the other. The fintech landscape is rapidly evolving, and it is critical for the authorities to strive to keep pace and aptly respond to emerging issues. On crypto-assets, we support continued efforts to educate and caution the public on risks involved and strengthen preparedness to address future risks that may arise as activities in the sector continue to expand. Meanwhile, we take positive note of the MAS' important role in strengthening cyber security and resilience both domestically and internationally and encourage further efforts on this front.

With household mortgages exceeding 50 percent of GDP and accounting for over three-quarters of total household debt, developments in the property market have significant implications for macroeconomic and financial stability and deserve close monitoring. We welcome the strong macroprudential policy framework in place to manage related risks, which is complemented by other property market cooling measures. Given the specific attractiveness of Singapore's real estate market to foreign investors, and the FSAP finding that a higher share of transactions by speculators and foreigners lead to faster increases in property prices, the residency-based ABSD appears well-targeted. Could staff elaborate a bit more on why it is suggested to eliminate the residency-based differentiation, and what are the possible implications, if any, on housing affordability for permanent residents/Singapore citizens?

Mr. Gokarn and Ms. Dhillon submitted the following statement:

We thank staff for the well written reports and Mr. Tan and Ms. Yoe for their candid buff statement.

Singapore has delivered a remarkable economic performance, with the GDP per capita more than doubling over the last twenty years. However, against a challenging external economic backdrop and the uncertainty posed by tightening global financial conditions, trade tensions, and global growth prospects, economic growth is now moderating, and these risks will remain crucial for the outlook. The buff has candidly deliberated the risks and mentions that growth of the Singapore economy is projected to be 1.5–2.5 percent in 2019, down from 3.1 percent last year. In this context, we would like to know staff's perspectives on the minimum growth level requirements, which are a pre-requisite for a high-income and highly open economy as Singapore, to remain an attractive and vibrant economic hub. We invite staff comments. Overall, we agree with the crux of the staff report and would like to offer the following comments for emphasis.

Macroeconomic policies need to be calibrated to meet the challenges from the external economic environment. An expansionary fiscal stance is well advised, specially to meet the medium and long-term structural challenges and to promote inclusive growth amid technology change. Domestically, Singapore will need to respond to and effectively address an ageing population, productivity, climate change and infrastructure needs. With core strengths in place, we are encouraged by the authorities' stance on providing a fiscal stimulus in the event of a downturn and to design a policy aligned with the multiple objectives that the fiscal reserves have so far served.

With the output gap now closed, growth moderating, and core inflation being steady, we agree with staff that the monetary policy stance is appropriately supportive of price stability. We welcome the measures for disclosure of data on net purchases of foreign exchange and its contribution to the continued communication and transparency of the monetary policy framework. We also align ourselves with the staff views on continued data-dependent monetary policy.

Singapore's large financial sector remains strong, with a solid regulatory and supervisory framework. The FSSA well acknowledges the strengths of low Non-performing loans and healthy bank profitability. Bearing in mind its stature as one of the fastest-growing financial sector hubs, we note the U.S. dollar liquidity coverage vulnerability to stress conditions and support consolidating banks' foreign exchange liquidity. Singapore's ground-breaking efforts in developing a vibrant and collaborative FinTech ecosystem has managed to strike a credible balance between promoting financial innovation, preserving financial stability and financial integrity. To uphold the gains achieved, we would place a high premium on the staff advice in the FSAP of continued mitigation of the transnational money-laundering and terrorism-financing risks, including through shell companies. We welcome the efforts and commitment indicated in the buff to this end. Beyond this, a holistic strategy for the housing sector in tandem with the economic growth levels should be employed to ensure risk mitigation and affordable housing supply.

Finally, to lead global innovation, utilization of new technologies and gearing its structures to top notch international competitiveness levels are essential for the growth model to continue to flourish. Therefore, we commend the substantive efforts taken by the authorities for managing the evolutionary challenges thrown by technology advances along with their focus on social mobility and reducing inequality. The Skill Future, healthcare and education, and infrastructure initiatives are notable. Separately, series of surveys rank Singapore as the most expensive city in the world, even in terms of business costs. Does staff foresee this as a structural factor which could influence growth?

With these comments, we wish the authorities continued success in their endeavors.

Mr. Saito and Mr. Kuretani submitted the following statement:

We thank staff for the comprehensive sets of reports and Mr. Tan and Ms. Yoe for their informative statement. We are pleased to see that Singapore has shown an impressive macroeconomic performance. Also, we commend the authorities' strong macroeconomic policy framework by implementing a number of reforms addressing the recommendations of the 2013 FSAP. On the other hand, Singapore faces long-term challenges including population aging and technological changes. In addition, the financial system of Singapore is exposed to global and regional macro financial shocks through significant trade and financial channels, which are the most relevant vulnerabilities for Singapore at this time. As we broadly concur with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

We positively note that the FY2019 budget projects a continued surplus while incorporating measures to help address medium-term challenges such as expansion of healthcare spending. It is encouraging that the authority reiterates its intention to raise the goods and services tax (GST) sometime in 2021-25, in response to impending health care spending increase. In addition, we agree with staff that Singapore should spend more budget to tackle with the medium-and long- term challenges such as population aging, climate change, and infrastructure needs. At the same time, we welcome the authorities' commitment that they stand ready to provide fiscal stimulus should economic conditions take a significant turn for the worse.

Monetary Policy

We welcome that the Monetary Authority of Singapore (MAS) announced a decision to disclose further information about its monetary policy operation for enhancing the credibility and transparency. Also, we are pleased to see that the tightening policy in 2018 has contributed to price stability by closing the output gap, moderating growth, and stabilizing core inflation. We agree with staff that monetary policy should be data dependent going forward.

Financial Sector Policy

We take note of the staff's assessment that the systemic risk persists stemming from moderately overvalued private residential prices, though the mortgage credit and price growth in the private housing market has slowed down by the recent macroprudential measures including structural macroprudential policies and cyclical measures. In this regard, we agree with the analysis of the FSAP report that a higher share of transactions by speculators and foreigners leads to faster increases in property prices. While we note that staff recommends eliminating residency-based differentiation in the Additional Buyer's Stamp Duty (ABSD) by unifying rates, we would appreciate it if staff could elaborate more on additional cost and benefit of the recommendation.

In addition, we welcome that, as the FSSA highlighted, Singapore's large financial sector is underpinned by strong regulatory and supervisory framework. However, the major banks' overall liquidity position is mixed, and U.S. dollar liquidity is vulnerable to stress conditions noted in the FSSA. In this regard, we support the staff's view that strengthening banks' foreign exchange liquidity should be a priority.

Structural Policy

We support the authorities' structural reform agenda toward addressing medium-term challenges associated with the growth impact of aging and technological change. We note that the greater efforts will be necessary to raise awareness and incentivize the uptake of existing programs. Regarding the labor market, we take note that the authorities announced in the FY2019 budget to gradually tighten foreign labor limits in the service sector. However, the foreign labor is an important source for growth, especially in the aging society. In this regard, we would welcome the staff's view on whether this labor limitation policy will positively affect the future Singapore's growth. Also, the social policies targeted at reducing inequality and fostering social mobility are essential. It is encouraging that the public employment services in Singapore has played an important role in reducing frictional unemployment and improving the quality of career matching. On the other hand, the programs have a possibility to change the nature of work. In this regard, we agree with the staff's assessment that the authorities should continue monitoring the social impact of Singapore's economic transformation.

Mr. Ray, Ms. Preston and Ms. Park submitted the following statement:

We thank staff for their informative report and Mr. Tan and Ms. Yoe for their helpful buff statement. As a small open economy and important financial center, Singapore has benefitted significantly from global trade in recent years, supported by a sound macroeconomic policy framework and a strong and resilient financial system. Outcomes that include a doubling of per capita GDP in the last two decades and declining income inequality since the GFC are enviable. Looking ahead, the country is positioning itself to deal both with the digitalization revolution and an aging population, while global trade tensions pose serious ongoing risks. We commend the Singaporean authorities for their steadfast commitment to an open, rules-based and inclusive international trading system, including their involvement in the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP). We broadly agree with the staff assessment and wish to reflect on just a few areas for emphasis.

We welcome the broad agreement between staff and the authorities on the policy mix, given ongoing uncertainties in the global economy. We support the authorities' focus on fiscal policies that support medium to long term growth and sustainability objectives. At the same time, we note that the authorities stand ready to provide fiscal stimulus should significant downside risks materialize. We agree that this should be carefully targeted, given that leakages are high and fiscal multipliers tend to be small in Singapore. We also support the authorities' view that monetary and fiscal policies should focus on fundamentals and that the movement of external imbalances should not serve as an anchor for domestic policy advice.

We are very interested in the authorities' efforts to promote an innovation-based growth model that seeks to establish Singapore as a global innovation hub. Has this innovation-based model been successful so far and what lessons could the rest of the membership draw from Singapore's experience?

Singapore's financial system is resilient even under adverse scenarios and large buffers are available to help manage shocks. The FSAP highlights the robustness of Singapore's financial system. A sophisticated financial oversight framework has been further strengthened and enhanced in recent years. Banks have sizeable capital buffers and strong profitability, while households and corporates appear to be able to withstand repayment difficulties under stress. We welcome the priority the authorities have put on being at the forefront of international efforts to reinforce cyber resiliency, especially in the banking sector. We also welcome the authorities' balanced approach to fintech, striving to be at the forefront while ensuring financial regulations keep pace with innovations in order to support financial stability and integrity. The authorities' increased focus and active supervision of banks' foreign currency liquidity profiles in recent years is welcome. We note that MAS's supervisory approach has seen an improvement in USD funding profiles in recent years and encourage continued vigilance and engagement with the banks in this area.

Ms. Mannathoko and Mr. Tivane submitted the following statement:

We thank staff for the informative set of reports and Mr. Tan and Ms. Yoe for their insightful buff statement.

We commend the Singaporean authorities for the country's remarkable economic track record characterized by rapid growth and broad-based development, underpinned by sound polices and institutions, a forward-looking agenda, and ample policy buffers to absorb external shocks and protect growth. We support the authorities' reform agenda and are in broad agreement with staff recommendations. We offer some comments below on fiscal, monetary and financial policies, as well as on productivity and the growth trajectory, and labor markets.

Fiscal policy

Ongoing uncertainty in the global economic outlook with trade frictions and sluggish global trade is bound to affect business investment and expansion plans. We therefore agree with staff on the need counteract these external risks with the deployment of fiscal space in meeting medium and long-term goals. Given the constraints on labor supply, and the fact that the authorities are already working to boost technology use, skills and innovation, it would seem that the only core input left to boost growth and productivity is capital. A higher public investment rate in strategic infrastructure and projects to support growth and economic transformation plans could help to resuscitate growth. Thus, we support measures that address spending needs necessitated by rapid population aging, upgrading of aging infrastructure, climate change, and easing transition costs for firms and workers as the country embraces technological change and structural transformation. In view of softening export momentum, a fiscal impulse could also support external rebalancing.

Monetary and financial policies

While the escalation of global trade tensions and related uncertainties may bring volatility, we have confidence in the MAS track record of prudent exchange rate management and expect that MAS will continue to monitor developments closely, allow the required flexibility via the NEER band and avoid overvaluation. We are also encouraged by the outcomes from the monetary policy normalization that began in 2018. We agree with staff that if downside risks materialize, the authorities should rely primarily on fiscal policy to adjust and use macroprudential tools to address potential financial stability risks.

We commend the authorities on the resilience of the financial sector with enhanced regulatory and supervisory standards that have ensured sizable capital buffers and strong profitability. We further note the efforts to strengthen cyber resiliency in the financial sector. The 2018 Cybersecurity Act is a significant step forward in this regard. We also applaud the developmental work underway in fintech. Nevertheless, as digitalization of the financial system deepens, we encourage an ongoing focus on measures to address ML/FT risks and buttress cyber-security. We also encourage vigilance and tempering of risks from the sizable value of household mortgages.

Productivity and the growth trajectory

We note and support the authorities' focus on raising productivity as a key channel to raise potential growth. We support the measures undertaken by the authorities based on recommendations from the Committee on the Future Economy – including the establishment of programs to incentivize digitalization and technological innovation in the business sector, and promotion of lifelong learning and skills enhancement for individuals. Whilst in 2010 productivity growth surged, leading to double-digit growth, since then it has dropped sharply. GDP growth has also been trending downward since 2010; thus there appears to have been a major shift in the economy after 2010. While we note the likely contributory factors such as weaker manufacturing (post-GFC), population ageing, labor market changes and uncertainty in the global economy, could staff elaborate on the underlying micro-level reasons for the decline and its timing? We also wonder if the downward trend is linked primarily to labor market developments or not, and if the slowdown has been exacerbated by low government investment? Staff views on the productivity issue and on what else can be done to raise potential growth are also welcome.

Labor market impact

With a rapidly aging population, workforce growth is decelerating while the economy is at near-full employment; therefore the economy's growth may be slowing down at least in part due to the limited availability of labor. It is therefore unclear why the authorities continue to tighten expatriate worker policies (and therefore labor market supply) given this context. Could staff elaborate on this? Have other, perhaps less costly and more effective paths towards better job outcomes for locals been considered?

With these comments we wish the Singapore authorities success in achieving their economic goals.

Mr. Guerra and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for the comprehensive set of papers and Mr. Tan and Ms. Yoe for their helpful buff statement. Singapore's remarkable and robust growth over the past decades has been underpinned by strong economic fundamentals, sound macroeconomic policies, and a solid institutional framework. Openness and integration of the economy have been key for boosting growth and becoming an important financial hub, but also make Singapore more vulnerable to external shocks. In this regard, the authorities have successfully managed the exposure to external developments with the help of sizable fiscal buffers, credible monetary policy, and a sophisticated financial supervisory framework. Notwithstanding the impressive track record, the current outlook poses downside risks related to weaker global trade growth, trade tensions, and a cyclical downturn on the global electronics cycle. Going forward, the authorities should continue implementing measures to enhance growth and equity while addressing challenges posed by demographic and technological changes.

Given Singapore's idiosyncratic factors, the design of the fiscal framework and the holding of sizable fiscal buffers have served the country well given the nature of their long-term challenges. While we take note of staff's view regarding the use of fiscal policy as a first line of defense against downside risks, and their recommendation to increase spending to support external rebalancing, we also take note of the authorities' difference in views. That said, given the current challenging external conjunction, we welcome that the authorities stand ready to provide stimulus measures in case of worse-than-expected economic conditions as stated by Mr. Tan and Ms. Yoe in their buff. Moreover, as suggested by staff, we welcome that authorities are considering the option of using government borrowing to finance larger infrastructure projects, as well as the intention to increase the goods and services tax (GST) in the medium term in order to increase revenue mobilization.

On monetary policy, we agree with staff that the current stance is adequate but going forward it should continue to be data dependent. Additionally, given the particularity of the monetary policy framework, clear communication and transparency are needed to enhance its effectiveness. In this regard, we consider that the recent announcement to disclose data on FX net purchases is a positive step in the right direction from MAS to improve transparency and communication.

We welcome the FSSA findings on the financial sector resilience notwithstanding its high interconnectedness and exposure to global and regional macro financial shocks. However, the financial oversight framework should continue to be strengthened in light of fintech developments. We are encouraged that the financial system is healthy and has adequate buffers to withstand adverse scenarios. We welcome that MAS has strengthened bank capital and liquidity requirements in line with Basel III. However, we note that the overall bank liquidity position is mixed. We agree with staff that strengthening foreign exchange liquidity should be a priority given the relevance of the US Dollar in the Singaporean financial system.

Singapore has emerged as a financial innovation and digital hub by harnessing upcoming digital technologies. We are encouraged by this trend and the efforts on building cyber resiliency, but risks should be monitored carefully as technology continues to evolve. We welcome that MAS' regulatory approach has been successful in striking an adequate balance between fostering financial innovation and competition while safeguarding financial stability. Moreover, we take positive note that the FSSA report includes a specific section on cyber risk and welcome MAS leadership in the development of international guidance to strengthen cyber resiliency. We take note that a Cybersecurity Act was adopted in 2018. Could staff comment further on the features of this act? Additionally, we welcome the inclusion of cybersecurity considerations in the FSAP's key recommendations.

Finally, we fully commend the authorities for their work and leadership in promoting a rules-based international trading system in support of a predictable trading environment, with both multilateral and plurilateral initiatives playing important roles in this respect.

Ms. Pollard and Mr. Grohovsky submitted the following statement:

Singapore's macroeconomic performance continues to be strong. Although growth moderated last year, the labor market has further improved, inequality is decreasing, and inflation is contained. Financial sector performance has also been robust, although some risks stemming from the real estate sector remain elevated. We generally agree with staff's assessment and focus our comments on a few areas where significant challenges or risks persist.

Singapore's current account surplus is one of the largest in the world, reaching 17.9 percent of GDP in 2018, and continued attention on this issue in future Article IVs is warranted. While certain structural factors can account for some of the surplus, as staff note the external position is substantially stronger than warranted by fundamentals. Although the authorities state that the external balance is not a consideration in determining the policy mix, the significant savings-investment imbalance calls for renewed policy efforts. The authorities should undertake measures to lower the high savings rate (which has averaged 46 percent of GDP since 2011), including by reducing Singapore's fiscal surpluses and boosting low domestic consumption. Expanding health care access and unemployment insurance could assist in reducing the savings rate, along with reductions in the high rate of mandatory contributions to the government pension scheme.

Appreciation of the real effective exchange rate, which is currently undervalued, would also help with rebalancing. We welcome the authorities' commitment to begin publishing intervention data and encourage the authorities to take further steps to improve transparency of foreign exchange interventions. These steps, combined with the structural changes mentioned above, should shift the economy towards greater domestic consumption and lessen the economy's dependence on external demand, thereby also reducing some of the risk of a slowdown in major trading partners.

Given Singapore's persistent fiscal surpluses, the authorities should not hesitate to use some of their substantial fiscal space to facilitate external rebalancing while strengthening the social safety net. Greater transparency surrounding Singapore's assets and investment returns is needed to understand the country's true fiscal capacity. Improved transparency will shed light on the full magnitude of Singapore's fiscal position and provide complete information to the public as the authorities embark on crucial policy decisions on taxes and bond issuance to finance future investment needs.

On the financial sector, we welcome the conclusion of Singapore's FSAP. Performance against past recommendations has been strong. Bank capital ratios and profits continue to be healthy, and the oversight framework is well-developed. However, we note risks in two areas. The first relates to foreign exchange liquidity, and we encourage the authorities to strengthen banks' U.S. dollar liquidity positions given the importance of dollar funding for Singapore's banks. Additionally, overvalued housing prices combined with substantial bank exposure have increased potential systemic risks. We therefore welcome the tighter macroprudential policies from last year. We also echo staff's call to maintain property market cooling measures until systemic risks subside and eliminate the residency-based differentiation in the Additional Buyer's Stamp Duty by unifying rates and then phasing it out once systemic risks have subsided. We think this advice shows prudence and balance.

Finally, we take note of Singapore's participation in one of the fintech pilots. We support staff's desire to develop expertise in emerging issues such as technology in the financial sector because we recognize the need to be able to advise the membership as issues become macro-critical. However, we caution against using the FSAP as the means to build such expertise, given that the FSAP is already an intensive exercise which should be focused on financial stability and anchored in existing standards. We also caution against developing FSAP recommendations on policy matters where international consensus and standards are still evolving.

Mr. Raghani, Mr. Razafindramanana and Mr. N'Sonde submitted the following statement:

We thank staff for a comprehensive and well-written report on Singapore as well as Mr. Tan and Ms. Yoe for their insightful buff statement.

We acknowledge the remarkable performance of the Singaporean economy over the past two decades, reflected in outstanding macroeconomic indicators, including the fast-growing GDP per capita and declining income inequality. Strong macroeconomic policies and structural reforms, coupled with the economy's openness, have laid the ground for this striking economic development. More recently, fiscal policy stance has been supportive, but buffers remain broadly comfortable and inflation pressures are modest. Monetary policy has been appropriately tightened to counter potential risks associated with above-potential growth while important macroprudential measures have been introduced to respond to possible overheating in the real estate market. We also note that the financial sector is robust with solid financial sector indicators albeit a large foreign exchange exposure. Regarding the external position, the saving-investment balance reflects the economy's structural strength, including the attractiveness of Singapore as a regional hub for multinational corporations, high saving for retirement, and prudent government fiscal policy for intergenerational purposes.

Looking forward, we welcome the broadly favorable medium-term prospects but note that vigilance is required to mitigate the impact of the significant downside risks to the outlook if they came to materialize. Immediate external risks stem from tightening global financial conditions, escalating trade tensions and decelerating global growth. Domestic factors resulting in an abrupt real estate price correction add to the negative risks. Regarding the latter, can staff elaborate on the mitigating effect that households' impressive net assets position can have on a disorderly in property market if any? We would also be interested in staff elaborating on the risk of a disorderly Brexit for Singapore as highlighted by the authorities.

Against the backdrop of elevated risks and considering longer-term challenges related to population aging, technological advances and climate change, we agree that the authorities' priority actions should be geared at further enhancing resilience, including by using the available policy space. Policies should foster smooth economic rebalancing, promote investment to further advance infrastructure and labor skill development and maintain competitiveness. The large fiscal space should be utilized to tackle these challenges while monetary policy should continue to lean on frequency data to monitor and respond to inflationary pressures. Structural reforms should be pursued to achieve the long-term objective of making the country a global innovation hub while paying due consideration to the social implications of this transformation.

As we broadly share staff's assessment and policy advice, we wish to make the following additional remarks for emphasis.

We welcome the authorities' readiness to provide needed fiscal stimulus should economic conditions came to deteriorate significantly. There is broad agreement between the authorities and staff on the need to use fiscal policy for longer-term objectives as well as counter cyclical objectives as needed but we note a disagreement in the use of macroeconomic policy mix as a way—or not—to address external imbalances. Ultimately, we share the view that the stimulus measures being explored by the authorities--notably targeted subsidies to preserve employment, transfers to lower income households, breaks and grants to enhance business cash flow, and investments in smaller infrastructure projects—should also lead to some external rebalancing considering the significant leakages through trade and remittances. We agree with the authorities that the endowment function of the fiscal reserves will be even more significant going forward to meet healthcare needs for aging population while borrowing will be needed to meet intergenerational infrastructure needs.

Persistent risks associated with Singapore's rapid development require that monetary and financial sector policies continue to support price stability and maintain financial stability, respectively. The recent decision of the Monetary Authority of Singapore (MAS) to keep tight monetary policy is appropriate and we encourage the pursuit of such stance as required by data. Macroprudential measures should be continued to contain financial stability risks by inducing strong precautionary buffers in corporate and household balance sheets. We also invite the authorities to maintain the robust regulatory and supervisory framework which has helped strengthen Singapore's financial center position. We however encourage them to require banks to enhance their foreign exchange liquidity given the significance of dollar funding and liquidity for the domestic banks and the economy at large. Moreover, the authorities should follow through the FSAP recommendations to tackle the challenges brought about by its status as hub for financial innovation and fintech, notably by ensuring that banks manage their outsourcing risk appropriately. They should also strengthen the AML/CFT guidelines for shell companies set by non-residents and for other arrangements that could be vehicles for tax evasion and illicit finance. Furthermore, attention should also be given to tackling cyber-attack risks brought about by the increased digitalization of the sector, particularly given Singapore's status as a global financial center.

On the structural front, we welcome the authorities' proactive approach to adapt the labor force to technological advances and we encourage them to continue to consider the inequality and social mobility implications. Initiatives such as "Skills Future" and "Adapt & Grow" help adapt labor skills to structural changes and technology development and raise productivity. However, we would be interested in staff's view on the effectiveness of the planned tightening of foreign labor limits in the services sectors, notably in improving productivity. Staff's elaboration will be appreciated.

Mr. Mozhin and Mr. Snisorenko submitted the following statement:

We thank staff for the comprehensive report and Mr. Tan and Ms. Yoe for their informative buff statement. Singapore's economic performance remains robust despite the recent deceleration of growth on the back of slowing global economy and continuing trade tensions. Monetary and fiscal policy have delivered price stability and fiscal sustainability, while fostering growth and promoting greater equity. Main risks for Singapore's highly open economy stem from the external sources. We broadly agree with staff's appraisal and would like to limit our comments to the following.

We welcome the focus of the fiscal policy on medium to long-term restructuring rather than on smoothing the economic cycle. Although fiscal policy may contribute to large external imbalances, it provides substantial fiscal space for medium- and long-term spending needs. We welcome the authorities' approach to meet recurrent spending needs by raising tax revenue, while financing greater infrastructure spending through borrowing. We also see merit in using the available fiscal space to support the development of human capital to raise productivity and help firms and workers adapt to technological change.

The exchange rate-based monetary policy framework has proved effective in achieving monetary stability and anchoring inflation expectations. We welcome the MAS's decision to increase the operational transparency of the monetary policy and commence a disclosure of the information regarding foreign exchange interventions. Further steps towards increased transparency and effective communication of monetary policy objectives will enhance the MAS credibility and help better anchor inflation expectations. At the same time, the rising role of modern services sector in the Singaporean economy may call for the shift towards interest rate-based monetary policy in the future. Could staff elaborate under what conditions this shift would be warranted?

The analysis of the synchronization of business and financial cycles provided in the Annex VII suggests that macroprudential policies substantially contributed to financial stability. However, Singapore's business cycle shows higher volatility than the global one pointing to the importance of maintaining strong precautionary buffers in the economy.

The FSSA report suggests that the financial sector is robust supported by the strength of policies and oversight frameworks. At the same time, some vulnerabilities remain, including high share of banks' cross-border lending and high demand for foreign currency liquidity. There are also challenges related to Singapore's role as a financial center and an important hub for financial innovation. While the expansion of fintech poses challenges to financial oversight, it is important to strike right balance between promoting financial innovation and preserving financial stability. We agree with staff that continued vigilance will be needed.

We welcome the progress on the extensive structural reform agenda launched in 2017 aiming at transformation of Singapore into a knowledge-based innovation-driven economy. Active labor market policies are intended to support this transformation, while smoothing out the negative effects for most vulnerable groups of workers. Labor policies underpin Singapore's strong labor market outcomes. At the same time further tightening of restrictions on foreign workers, such as ceilings on the foreign worker dependency ratios and foreign worker levies, seems to be suboptimal measure. Could staff elaborate on the Fund's view on the imposition of restrictions on foreign workers?

We wish the Singaporean authorities continued success.

Mr. Daïri and Mr. Osei Yeboah submitted the following statement:

We thank staff for the well-written set of papers, and Mr. Tan and Ms. Yoe for an insightful buff statement. We concur with the thrust of staff appraisal and offer the following comments for emphasis.

The highly open Singapore economy has a track record of credible macroeconomic management, a robust financial system, and a strong and business-friendly regulatory environment. Growth has been robust, though moderating recently; unemployment is very low; inequality has declined; inflationary pressures remain benign and well anchored; and sizable fiscal and external buffers have been built over the years. While growth is projected to stabilize at the 2.5 percent growth potential level, downside risks from global uncertainties and on-going trade tensions put a premium on mitigating policies and measures that prioritize modern domestic growth drivers. We take positive note of the near alignment of authorities' policies with staff recommendations.

With sizable buildup of buffers and a steady stream of investment income to the budget, Singapore has ample fiscal space to address medium-to long-term challenges and absorb potential shocks. Noting the multiple objectives of Singapore's fiscal reserves, further expansionary policy should proceed with caution, and we welcome the authorities' efforts to raise revenue to meet healthcare expansion and support older workers' employment. Faced with an aging work force and with growth near potential in a rapidly changing domestic and global landscape, rebalancing spending and improving efficiency will free up more space to invest in R&D and education.

Monetary Authority of Singapore (MAS)'s basket, band, and crawl monetary policy framework has delivered price stability. The policy stance is broadly neutral, and as the output gap has closed, we find authorities' commitment to data driven decision-making appropriate. Further disclosure of information on monetary policy operations, as announced, will enhance transparency and credibility of monetary policy.

Singapore's large, systemically-important, and globally-connected financial sector is underpinned by a strong oversight framework. Policies should continue to focus on building capital and liquidity buffers and ensure that credit growth is aligned with economic fundamentals. The authorities' measures to cool the rising housing prices, including through macroprudential measures to safeguard financial stability have been successful. That said, authorities should remain vigilant and stand ready to take further corrective measures if warranted. Strengthening banks' foreign exchange liquidity should also be a priority. In addition, with increased focus to positioning the country as a 'Smart Nation', MAS should continue to aim at striking a careful balance between promoting fintech and safeguarding financial stability. We are reassured by Mr. Tan and Ms. Yoe's indication of authorities' commitment to take swift and appropriate mitigating action should any disruptive fintech risk materialize.

We welcome the focus of structural reforms on addressing the demographic, skills development, and digitalization challenges. While active policies are in place to reduce frictional unemployment and improve quality of career/skills matching, authorities should continue to monitor the social impact of economic transformation to ensure that the recent gains in equality are sustained.

We wish the authorities continued success.

The Acting Chair (Mr. Furusawa) made the following statement:

Singapore's macroeconomic performance is impressive, with per capita GDP doubling in the last 20 years and income inequality declining. In the short term, risks to growth are tilted to the downside, due mainly to external sources. At the same time, Singapore faces important long-term challenges. Directors have supported the authorities' efforts to meet these challenges by deploying their ample fiscal space to tackle age-related spending, rejuvenate infrastructure, address the macroeconomic effects of climate change, and help workers adapt to technological change. These efforts can also contribute to more balanced growth. Directors have also advised on a careful balance between supervision and the promotion of financial innovation.

Ms. Mannathoko made the following statement:

We commend the Singapore authorities on their excellent performance history. We would also put forward our hopes that they will succeed in countering the downside risks that they now face.

I also wanted to comment further on one of the questions we had raised regarding the issue of the slowdown of the global economy post-global financial crisis. We had posed a question, but staff answered a slightly different question from what we posed. We know that there has been a generalized slowdown across the global economy after the crisis and that, in advanced economies, aging populations have made the recovery more difficult. This was not what we were looking at.

Our comment was really geared toward the specifics of the decline at the country level. These often matter because, in some cases, what has really happened is that the underlying model for the economy has shifted after the global financial crisis. For example, specific factors that may have contributed to lower elasticity or where transmission channels have changed can result in old policies, solutions no longer working. We are really thinking more about what Singapore's more granular experience has been. That was what we were interested in.

In closing, we wish the Singapore authorities success going forward. We look forward to their experimentation bearing fruit.

Mr. Mouminah made the following statement:

We did not issue a gray statement, but we would like to take this opportunity to join other Directors in commending the authorities for achieving impressive economic performance over the past years, despite many challenges.

We also take a very positive note of the authorities' emphasis on promoting greater equity. In this regard, we welcome the move to update social policies, with the aim of raising wages and standards of living for lower-skilled nationals.

Singapore’s sizable fiscal buffer will continue to serve the country well, given the considerable medium- to long-term challenges, such as those related to aging and technological change. While we take note of the staff’s view regarding the use of fiscal policy as a first line of defense against downside risks and their recommendation to increase spending to help support external rebalancing, we are reassured by the indication in the buff statement that the authorities stand ready to provide fiscal stimulus in case of an economic downturn.

We are encouraged by the authorities’ efforts toward advancing fintech developments and cyber resilience, and welcome the mass regulations approach, striking the right balance between fostering financial innovation and safeguarding financial stability.

We are also encouraged by the Financial System Stability Assessment (FSSA) and the Financial Sector Assessment Program’s (FSAP) overall findings that Singapore’s financial system, which is highly integrated and is an important regional financial hub, is resilient, even under adverse scenarios. At the same time, we encourage the authorities to remain vigilant to preserve financial stability.

Given the importance of dollar funding and liquidity for Singapore’s bank and economy, strengthening bank foreign exchange liquidity should be a priority, as rightly indicated by staff. Here, we are reassured to note that the authorities have been actively supervising banks on their foreign currency liquidity profile and we encourage continued efforts to engage banks through the supervisory process.

On innovation, we welcome the authorities’ efforts to promote an innovative-based growth model that seeks to establish Singapore’s position as a global innovation hub, supported by a labor force with deep skills. We agree with staff, that a greater effort will be needed to raise awareness and to incentivize participation and buy-in.

Finally, we commend the authorities for their work in promoting a rules-based multilateral trading system in support of a predictable trading environment, with both multilateral and plurilateral initiatives playing an important role in this respect.

Mr. Jost made the following statement:

In addition to the points we raised in our gray statement, I would like to make one comment on fiscal policy and on age-related spending, more specifically.

On the first page of the report, staff suggests that Singapore should deploy fiscal space to address a few challenges, including the long-term challenges arising from age-related spending. The Acting Chair made a similar point in his opening remarks. In our view, this is somewhat counterintuitive. While we agree that today's government spending is warranted to prepare the Singaporean economy for the future, including when it comes to human capital and infrastructure investments, we are not convinced that this holds in the case of long-term aging costs. Annex V of the report, which uses clear language to warn of aging-related costs, explains that the government will need to take on a larger share of the burden of aging costs going forward. In addition, the report qualifies age-related spending pressures as substantial and likely to intensify. Given the fiscal risks, in addition to those that an open economy like Singapore is facing, as reflected throughout the report, we fully understand the authorities' choice for prudent fiscal policies. In this context, we were wondering whether staff could further explain their recommendation—namely, how would today's expenditures help mitigate aging costs in the long run? The written answer to our question does not seem to fully address this point, as it focuses mostly on the usefulness of infrastructure investment, which we fully agree with. I would appreciate a further explanation.

Mr. Saito made the following statement:

We commend Singapore's authorities for achieving strong performance over the past decades and encourage the authorities to address medium- to long-term challenges going forward. As we have issued a gray statement, we would like to offer three comments for emphasis.

First, on fiscal policy, we are of the view that population ageing is one of the biggest challenges for Singapore in the future. In this regard, we welcome that the Singapore authorities have focused on the medium- to long-term objectives and to expanding healthcare expenditures in their 2019 budget. We also welcome the authorities' intention to raise the goods and services tax (GST) sometime in 2021 to 2025 to address the expenditure pressures from the population aging. In relation to this, we support the authorities' view that an increase in expenditures related to ageing, education, and infrastructure would serve to gradually reduce the current account surplus.

Second, regarding monetary policy, we are pleased to see that last year's tightening policy has contributed to price stability. We agree with staff that the current policy stance is appropriate. We also welcome that the Monetary Authority of Singapore (MAS) has decided to disclose further information about its monetary policy operations. Going forward, while we take note of the staff's view that fiscal policy should be the first line of defense when downside risks materialize, given the high leakage and the low multiplier, monetary policy action should also be flexibly taken, depending on the nature of shocks.

As for the financial sector policy, we welcome that macroprudential measures have contributed to slowing mortgage growth, mortgage credit, and housing price growth.

On the Additional Buyer's Stamp Duty (ABSD), while we note that staff recommends eliminating residency-based differentiation by unifying rates, we encourage staff to do a further analysis on the costs and the benefits of their measures to help the authorities to calibrate the appropriate rate of the ABSD.

On the issue of U.S. dollar liquidity risks by banks, we positively note the MAS's active supervisory approach has contributed to an improvement in U.S. dollar funding profiles in recent years. However, the staff's analysis found that the major banks' U.S. dollar liquidity is vulnerable to stress conditions. In this regard, like Mr. Ray, in his gray statement, and Mr. Mouminah, in his comments today, we encourage the authorities to remain vigilant and to continue to engage with the banks in this area.

Mr. Sun made the following statement:

I commend the authorities for their sound policies and their impressive economic performance over the years, as well as their contributions and strong support to multilateralism. The staff report has showcased many examples of good practices and initiatives that could potentially serve as a useful reference to other economies facing similar situations. With an increasingly uncertain external environment and pressures arising from population aging, economic transformation, and climate change, the path ahead will not be easy, but the country is in good hands.

I would like to provide additional comments on a few issues.

First, we welcome the authorities' fiscal policy, which is centered upon medium- to long-term restructuring but is also ready to support the economy in case of a significant downturn. The current fiscal and monetary policy mix is rightly focused on fundamentals. Similar to Mr. Ray, we believe the movement of external imbalances should not serve as the primary anchor for domestic policy advice. That said, the expected increase in spending on health care, education, and infrastructure should have an impact on reducing the current account surplus.

Second, on the financial sector. The FSSA/FSAP assessed that Singapore's financial system is sound and resilient under adverse scenarios. While stress tests have identified potential U.S. dollar shortfalls in the banking system under a severe stress scenario, we take comfort from the fact that the authorities have already been taking actions over the past few years to supervise the banks' foreign currency liquidity profiles. As a result, the banks have diversified their sources of U.S. funding. Going forward, we encourage the authorities to stay vigilant and to closely engage banks in their supervisory process to ensure resilience in the financial system.

With these remarks, we wish the authorities continued success.

Mr. Meyer made the following statement:

Singapore's growth performance has been impressive, although it has started to moderate as of late. To address medium-term challenges—in particular, those stemming from the impact of aging and technological change—it is important to pursue an appropriately geared reform agenda, while maintaining the prudent fiscal and monetary policies that have served the country well. We are reassured by the authorities' strong commitment to all of the above, as laid out in the staff report and also expressed in the buff statement.

As also noted by many Directors in their gray statements, Singapore has a very high current account surplus, which is assessed to be substantially stronger than warranted by fundamentals by staff. However, we would caution that the country's high current account surplus and corporate savings reflect its role as a global trading and financial sector. Moreover, the large stock of household savings is a result of mandatory savings for pensions and health care, as well as additional precautionary savings in response to aging. This underlines the need to take country-specific factors into account when assessing a country's external position and not to draw conclusions prematurely, especially when estimates are subject to high uncertainty, as it is the case here, where the gap is in the range of 1.1 to 7.1 percentage points.

As regards fiscal policy, we tend to agree with the authorities that, at the current juncture, fiscal policy should remain focused on medium- to long-term objectives and that greater discretionary spending should be reserved for the event of a severe economic downturn. Also reflecting the comments of Mr. Jost, Mr. Mouminah, and others, I would, for that reason, qualify or nuance your initial comments with regard to fiscal policy, and would hope that this is also reflected in the summing up.

Overall, the plans of the authorities appear well designed to raise productivity, reduce inequality, and promote social mobility. We particularly welcome that Singapore's comparatively low income inequality is rooted in strong human capital, employment prospects, and high social mobility, which is, in turn, based on sound housing, education, and transport policies. Moreover, the promotion of homeownership for low-income households contributes to higher and broadly shared equity. Taken together, these factors reduce the need for redistributive taxation and can serve as an example also for other countries.

Finally, one area where we would call on the authorities to do more would be regarding the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime, where efforts should be increased to fully align it with its international best practices.

Mr. Benk made the following statement:

We thank staff for the very in-depth and quality reports and for their answers to our questions. We issued our gray statement, and we would like to make the following points for emphasis.

We commend the authorities for their impressive economic performance and for putting in place and implementing an ambitious reform strategy, which has increased income per capita and reduced inequality, while harnessing the benefits of innovation and technological change.

We broadly acknowledge that Singapore's strong external position is driven by its global financial center status, by prudent fiscal policies and a buildup of assets. We take note of Mr. Tan's assertion that the significant increases in recurrent expenditure will accelerate the projected decline in

Singapore’s public sector net savings as a share of GDP and will lead to a gradual decline of the current account surplus in the next decade.

We take comfort from the FSSA/FSAP’s assessment, affirming that the main parts of Singapore’s financial system would remain resilient, even under adverse macro conditions.

Finally, the authorities’ efforts to make Singapore an important hub for financial innovation, including fintech, are commendable, but we encourage them to continue to strike the right balance between promoting financial innovation and preserving financial stability.

Ms. Pollard made the following statement:

First, I wanted to support the comments made in the gray statement of Mr. de Villeroché, Mr. Castets, and Mr. Sode on the current account surplus and the need for in-depth analyses in Article IV consultations, particularly for a country with such a substantial current account surplus and an external position that is substantially stronger than warranted by fundamentals and policies.

I also agree that fiscal space could be used to contribute to supporting domestic demand and external rebalancing. I believe this is a core issue for the Fund. There are some clear policy actions that could be taken to help reduce the high savings rate—which is high, even taking into account the aging population—and also to boost consumption.

Finally, I thank staff for their detailed answer on the ABSD, which is identified as both a capital flow management measure (CFM) and an macroprudential measure (MPM). As we noted in our gray statement, we thought the staff found a good balance in recommending maintaining property market cooling measures until systemic risks subside, while eliminating the residency-based differentiation of the ABSD by unifying the rates.

Mr. Trabinski made the following statement:

We commend the Singaporean authorities for their robust policy framework that has helped the economy remain strong.

While Singapore has benefitted greatly from being open, the economy is exposed to risks related to a potential tightening of global financial conditions, an escalation of trade tensions, a deceleration of global growth, and real estate overvaluation. We issued a gray statement, so my intervention today will focus on financial sector issues.

We welcome the FSSA's findings, indicating Singapore's financial sector resilience and the authorities' longstanding efforts to ensure high-quality financial sector policies and a strong oversight framework. However, we share staff's concerns about domestic systemically important banks' (D-SIBs) U.S. dollar liquidity vulnerabilities, and encourage the MAS to work with banks to strengthen their foreign exchange liquidity positions.

Another risk area pointed out by staff refers to the overvaluation of housing prices. While we perceive the implemented macroprudential measures aimed at cooling the real estate market as adequate, we encourage the authorities to move away from residency-based measures once risks dissipate.

Finally, on fintech and cybersecurity, the authorities' policies and strategies, including Smart Cities Network, Smart Financial Center, or their Cybersecurity Act, are good examples of proactive government policies to promote the digitization of the economy. Therefore, we see merit in staff following these issues in the future, as they might be useful to foster knowledge sharing on emerging trends and practices across the membership.

As emphasized by Mr. Mouminah, we commend the authorities for their prudent approach to fintech, which strikes the right balance between promoting innovation and safeguarding financial stability. Nonetheless, as this sector is rapidly evolving, it is important for the authorities to be ready to respond to risks that may loom on the horizon, especially when it comes to addressing risks related to cryptocurrencies, including AML/CFT risks.

With this, we wish the authorities success in their future endeavors.

Mr. Castets made the following statement:

As the Acting Chair noted, Singapore's economic performance over the last decades has been quite impressive and has made Singapore one of the richest countries in the world. We are particularly impressed by Singapore's capacity to stay ahead of the curve in terms of innovation and human capital. We are convinced that there are valuable lessons in Singapore's trajectory for other all the countries in terms of rising to that level of income.

We issued a gray statement, so I will just limit myself to four points.

The first one is that, as recalled by Ms. Pollard, we asked staff to dig deeper into the current account surplus drivers. It is a major issue given the magnitude of the excess current account surplus. As for all the financial centers, we feel that there is a need also to work further on data reconciliation. And this applies implies, of course, a close collaboration with the authorities on the content of the income account.

Second, while Singapore is one of the richest countries in the world, the level of wealth inequality remains particularly high. This probably calls for an enhanced redistribution, notably, through the tax system, which will also help to support domestic demand while contributing to the rebalancing of the external sector, which would also enhance investment, as planned by the authorities and mentioned by Mr. Jin before me, in health care, education, and infrastructure.

This brings me to my third point on fiscal policy. On this dimension, we are quite convinced that the staff's analysis is balanced, including when paying attention to aging. In our view, a more proactive fiscal stance, given the substantial fiscal space that exists, will contribute to intergenerational equity and also to intertemporal optimality, which probably should be part of this equation.

In reaction to previous interventions, from our perspective, in a country where there is such a large fiscal buffer, when we compare the cost of ageing to this buffer, public investment to raise productivity and to support enhanced labor force participation, should be prioritized to deal with the challenge of ageing.

Finally, like Mr. Meyer, we would encourage the authorities to adopt best practices in the AML/CFT field.

Mr. Razafindramanana made the following statement:

We commend the authorities for their impressive performance. As we have issued a gray statement, I would like to add a few points.

We appreciate staff's responses to our questions on the risks the deficit poses to Singapore's economy and on the scope for mitigating the effects that the households' net asset position could have in case of a disorderly real estate market correction.

As the overall net asset position of 376 percent of GDP in 2017 hides disparities in wealth and income across households, and the household sector is sensitive to house price fluctuations, vigilance is required to ensure a smooth landing in case of a sharp property price adjustment. We welcome the macroprudential measures taken and envisaged by the authorities to contain this risk.

Second, on banks' foreign currency liquidity. We are reassured that systemically important institutions maintain comfortable buffers or the minimum regulatory requirements in all currencies. In addition, stress tests show that banks in Singapore would withstand a severe deterioration in foreign currency liquidity. We encourage the authorities to continue supervising banks on their foreign currency profiles, as highlighted by Mr. Tan and Ms. Yoe.

With these remarks, we wish the Singaporean authorities continued success.

Mr. Ray made the following statement:

We issued a gray statement, so I wanted to pick up on two things.

First, on this question about the future of age-related spending, I cannot help but be very interested in your answer to Mr. Just's question. It strikes me that this is an area where we have quite a few members wrestling with adverse demographic headwinds. Lessons that we can learn from across the countries seems to me to be an area where the Fund could provide quite a bit of value. We have a number of members in our region that face similar pressures. It is fair to say that authorities are taking slightly different approaches. It would be worthwhile to keep an eye on this cross-country experience.

The second comment is, we asked a question about innovation-led growth. The discussions I have participated in with the Singaporean authorities suggest that the approach they are taking to innovation-led growth is quite innovative, if I might put it that way. I understand why the staff's answer is that it is too early to tell, but given that it is innovative, in future Article IV missions, it would be worthwhile to follow up because, again, it is something where there is a lot of interest and people can learn, including from my own authorities.

Mr. Palei made the following statement:

I thank staff for the interesting report. I wanted to ask a few questions. One of them was related to what Mr. Ray said about the innovation-based growth model. I was surprised by staff's answer that it is too early to stay whether it was successful in Singapore or not. If we can say anything about successful industrial policy or the innovation-based growth model, Singapore is one of the countries which demonstrated very persuasively that it can be successful. Maybe it is very difficult to replicate in other cases, but I am certain that many countries have great interest in the experience accumulated by Singapore and the authorities' ability to adjust to various shocks and various challenges and find the new industries where they can succeed, not just the entertainment industry, but also hedge funds, anything that you can think about. I would encourage staff to take another look into these issues and to offer additional research on this topic.

The second question I had was about the growth rates in Singapore. I understand that there is this notion that growth is slowing down in Singapore in the medium term. When we look at the numbers, it looks like staff have potential growth at about 2.5 percent annually. But then what comes to mind is the current move to limit growth in the foreign labor force, or at least to fix the ratio between the foreign labor force and total labor force. Is this factor one of the important ones that is slowing down the overall rate of growth? What is the per capita rate of growth projected for Singapore? Because when we compare advanced economies, staff say, if Singapore's growth stays close to that in other advanced economies, then there are no major challenges for the country. But the way I see it, a 2.5 percent growth potential is much higher than it is in other advanced economies, if we are comparing in per capita terms. In this area, Singapore has an advantage. I congratulate the authorities on their achievements and wish them success in the future, trying to stay ahead of the curve.

Mr. Saraiva made the following statement:

I will be very brief and just commend the Singaporean authorities for a well-managed and strong performing economy that has been sustained over a long period.

I would like to comment on the fact that one of the cornerstones of the macroeconomic situation in Singapore is exactly the robust fiscal position, which should be preserved. But I would like to agree with what Ms. Pollard and Mr. Castets have said, that especially given the outlook for weak support from external demand, a more proactive use of the fiscal space should be considered to provide a stimulus at this juncture, and mostly by supporting infrastructure and social investment. This is a point that the authorities should consider under those circumstances.

With that, I wish the authorities good luck in their future endeavors.

The staff representative from the Asia and Pacific Department (Ms. Choueiri), in response to questions and comments from Executive Directors, made the following statement:[1]

I will address the fiscal issues first. I recognize re-reading this bullet that it may have created some confusion to the reader. Our advice hopefully is clearer in the text, whereby we point to the challenges that would arise over the medium term from aging and health care. These will necessitate greater spending over the medium term. We do not have any specific recommendations for them to spend on these issues today. The aging pressures will come over time, and they will stand ready to spend more over time, as these come through. That will help reduce savings over time and, hence, the current account balance over time as well.

On the issue of being more proactive on fiscal policy and responding to the conjunctural issues, the authorities have, in the past, resorted to targeted stimulus to intervene, as needed. They indicated to us that they stand ready to do so, should downside risks materialize, in line with our advice in the report.

We saw scope for them to advance some of the infrastructure programs that they have in place for the near term, and to start on them soon, which would also help with rebalancing. This is the advice that we have for them on fiscal policy.

On the issue of growth and the role of limits on foreign labor participation, we do not see a causality going from those limits to reduced growth. Rather, we see growth moderating and going back toward potential. Growth had been above potential in the previous two years. It is slowing down a bit faster than potential now, but it is mostly driven by these external trade tensions. But we do not see the limits as being a constraint on growth. In fact, in the past, when there were surges in growth and need for labor, the authorities proactively and flexibly removed any limits. Those limits are not

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

really binding today in the labor market. We do not see them as binding. We do not see a crunch in the labor market.

We take note of all the guidance from the Board on the future work that we have to do. In fact, we do plan to look a bit closer at savings and the drivers of savings. We do recognize that savings are high, so part of the work plan for the next Article IV will be to look at household savings, in particular.

There is some work in the Asia and Pacific Department (APD) on corporate savings across ASEAN countries. We hope that some of that will give us some indication on corporate savings in Singapore, but this will also be dependent on whether we can get a hold of some microdata.

When we look at the current account in Singapore, the obvious macro drivers for savings are not there, so we have to dig a bit deeper. It is not an easy task, and it takes time. We have to look into the details. The External Balance Assessment (EBA) results suggest that over three-quarters of the excess imbalance is driven by the residual. We have to look at structural factors. It is beyond the obvious macro stuff that we look at usually. This will take some work. It will take some time. It may not be just a matter of one consultation, but we are committed to looking at it.

Mr. Jost made the following statement:

We thank Ms. Choueiri for her explanations. It is specifically on the first page of the report, where the language is somewhat confusing. The staff wrote: “More of Singapore’s fiscal space could be deployed to meet medium- and long-term challenges arising from age-related spending, aging infrastructure, climate change, and technological change.”

Whereas most of those are considered productive investments, and we agree that fiscal space could be used, but for somebody who is not as acquainted with aging-related costs, it is a different matter. I do agree that paragraphs 24 and 25 are more nuanced. I do not know how to go about this, but I just wanted to make the point that this is somewhat confusing.

Mr. Tan made the following concluding statement:

I thank the Article IV and FSSA/FSAP teams for the well-written and balanced reports. I would also like to thank Directors for their thoughtful statements and constructive advice, which I will faithfully convey to my Singaporean authorities.

I am encouraged by Directors' acknowledgement of Singapore's robust economic performance and broad support for my authorities' approach in adopting a longer-term perspective in policymaking and their preparedness in taking targeted policy responses, should emerging risks materialize.

The global economic outlook has become more uncertain, and the downside risks have grown. In that context, my authorities need to remain alert. That said, there is no need to be alarmed. The Singapore economy is in for a rougher ride, but it is well placed.

While external headwinds will slow Singapore's pace of growth in the short term, their domestic economic restructuring is proceeding well and will enable the economy to emerge stronger.

Staff noted that policies should be geared toward addressing the challenges posed by shifts in the global economy, population aging, and technological change. To this end, policies in Singapore are formulated to take advantage of opportunities that these longer-term challenges present, while taking into account the ongoing uncertainties globally.

Let me highlight a few key points. First, to boost long-term growth, my authorities have been doubling down on economic restructuring and taking a proactive approach to help businesses adopt new technologies and raise productivity.

Second, to foster inclusive growth and promote social mobility, my authorities have enhanced social support and have made substantial investments in education and lifelong learning.

Third, my authorities expect to significantly increase expenditures in health care and infrastructure investment to deal with an aging population and climate change. As my authorities are looking to deal with the country's structural priorities, they also firmly reiterate the importance of and a commitment to, an open, rules-based, and inclusive international trading system as integral to their long-term economic strategy.

Singapore completed the FSSA/FSAP this year. My authorities are pleased that the financial system is assessed to be underpinned by strong regulatory and supervisory frameworks and remains resilient, even under adverse scenarios. In particular, my authorities welcome staff's interactive support for their proactive use of macroprudential measures to cool the property market. They will continue to monitor the property market closely and stand ready to adjust their macroprudential measures as necessary.

On fintech regulation and supervision, staff noted that my authorities struck a good balance between promoting innovation and preserving financial stability, investor protection, and financial integrity. Nevertheless, my authorities recognize the need to remain vigilant against risks that can come with digitalization, such as money laundering, terrorism financing, and cybersecurity. My authorities will consider the FSSA/FSAP recommendations to further strengthen their financial oversight.

In conclusion, I would like to express our appreciation, on behalf of my authorities, to the Article IV team, headed by mission chief, Ms. Choueiri, and the FSSA/FSAP team, headed by mission chief, Mr. von Allmen. My authorities have benefitted greatly from their constructive engagement throughout the missions. It has been a valuable opportunity in validating the policy priorities adopted by my authorities and in identifying future areas of work. Throughout both missions, their interactions with my authorities were candid and pragmatic, and their earnest efforts to deepen the close partnership between the Fund and my authorities are much appreciated.

On that note, my authorities look forward to building on the good collaboration with the Fund in the years to come.

The Acting Chair (Mr. Furusawa) noted that Singapore is an Article VIII member and no decision was proposed.

The following summing up was issued:

Executive Directors broadly agreed with the thrust of the staff appraisal. They commended the authorities' sound macroeconomic management and strong policy frameworks, which have contributed to robust and resilient economic performance and reduced income inequality. Directors noted that Singapore's economic growth is expected to continue to moderate in 2019 as export momentum slows. The current account surplus remains large as a share of GDP. Looking ahead, risks are tilted to the downside stemming primarily from the external environment.

Directors commended the authorities' long-term policy approach and supported the use of Singapore's ample fiscal space over the medium and long terms to address challenges, including age-related spending, climate change, expansion and renewal of infrastructure, and programs to help workers and firms adapt to technological change, while preserving adequate fiscal buffers. Directors recognized that higher government spending would also support external rebalancing, given significant leakages through trade and remittances. A few Directors called for greater use of fiscal policy for a more balanced growth.

Directors supported the broadly neutral monetary policy stance. They recommended that monetary policy remain data-dependent. If downside risks materialize, fiscal policy should be the first line of defense and macroprudential policy could be eased while maintaining caution vis-à-vis financial stability issues. Directors welcomed the authorities' commitment to begin publishing foreign exchange intervention data to improve transparency.

Directors welcomed the findings of the FSAP and supported the main recommendations. In particular, they noted that Singapore's financial system is considered resilient, underpinned by a strong regulatory and supervisory framework. At the same time, liquidity stress tests reveal vulnerability in U.S. dollar liquidity. Directors, therefore, encouraged giving priority to bolstering banks' foreign exchange liquidity. Directors also urged further progress in enhancing the bank resolution framework by devoting more resources to the Monetary Authority of Singapore's resolution unit. Directors took positive note of the reforms to reinforce the safety of the payment system.

Directors welcomed the authorities' proactive use of macroprudential and other property-related measures. They commended the continued monitoring of conditions in property markets and appropriate adjustment of macroprudential measures. They suggested eliminating residency-based differentiation for the Additional Buyer's Stamp Duty, and then phasing out the measure once systemic risks dissipate.

Directors supported the authorities' focus on balancing the promotion of financial innovation against preserving financial stability, investor protection, and financial integrity. They called for continued vigilance, including to guard against money laundering/terrorism financing and cyber-risk and to minimize reputational risk.

Directors commended the authorities' structural reform agenda to raise productivity and turn Singapore into a global innovation hub through incentives to automate and innovate. They took note of programs to drive digitalization and technological adoption among businesses and promote lifelong learning and skill enhancement among individuals. Directors called for continued monitoring of the social impact of economic transformation.

They underscored the need for greater efforts to incentivize the uptake of existing programs, especially among those more at risk of displacement by automation. They also emphasized that labor market policies should remain nimble to the rapidly changing nature of work. Directors welcomed the authorities' efforts to reduce Singapore's carbon emissions.

It is expected that the next Article IV consultation with Singapore will be held on the standard 12-month cycle.

APPROVAL: August 31, 2021

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Growth

1. ***While we note the likely contributory factors such as weaker manufacturing (post-GFC), population ageing, labor market changes and uncertainty in the global economy, could staff elaborate on the underlying micro-level reasons for the decline and its timing? We also wonder if the downward trend is linked primarily to labor market developments or not, and if the slowdown has been exacerbated by low government investment? Staff views on the productivity issue and on what else can be done to raise potential growth are also welcome.***

- In addition to the cyclical factors mentioned, Singapore is a high-income economy with a rapidly aging population and is thus transitioning to a mature economic status. Maintaining the pace of productivity growth to sustain economic growth is now more challenging than during the catchup phase. There is no evidence to link reduced growth primarily to labor market developments, which have been relatively strong. As for government investment, it has been rather stable around 4.3-5.3 percent of GDP since 2012, a level comparable to that of other advanced economies.
- Staff views that the ongoing economic restructuring to boost productivity by investing in technology and high-quality human capital is appropriately geared toward supporting medium-term growth. Continued effort to further regional integration could also help.

2. ***We are very interested in the authorities' efforts to promote an innovation-based growth model that seeks to establish Singapore as a global innovation hub. Has this innovation-based model been successful so far and what lessons could the rest of the membership draw from Singapore's experience?***

- Guided by the recommendations of the Committee of the Future Economy issued in 2017, the government launched many initiatives to transition to an innovation-driven economy. Since then, the government continues to monitor the progress and make adjustments where necessary. Given these initiatives are structural in nature they will take time to fully yield their potential outcome; besides, the initiatives are still very much evolving. It is therefore too early for staff to have a firm assessment on how successful the model has been.

3. ***In this context, we would like to know staff's perspectives on the minimum growth level requirements, which are a pre-requisite for a high-income and highly open economy as***

Singapore, to remain an attractive and vibrant economic hub. We invite staff comments.

- While Singapore's high growth rates in the past have made it an attractive destination for investment, Singapore's economic strength also lies in high-quality infrastructure, geographical location, prudent and sound macroeconomic policy framework, and strong institutions. In staff's view, as far as these conditions continue to hold, and Singapore maintains growth that is broadly on par with that of other advanced economies, the island should remain an attractive and vibrant economic hub.

4. Separately, series of surveys rank Singapore as the most expensive city in the world, even in terms of business costs. Does staff foresee this as a structural factor which could influence growth?

- Data suggest that wage growth has been broadly in line with productivity growth. Business cost (in the manufacturing sector) have been in fact declining in recent years. In staff's view, at the moment, business costs are unlikely to be a key challenge for growth.

National Savings

5. It caught our attention that on top of the social coverage and sizable household positive net asset position (around 380 percent of GDP), households are still motivated to accumulate savings. We will appreciate some ideas from staff on savings propensity by households.

- Several factors may contribute to the households' high savings propensity, including rapidly aging population, strong aspiration for homeownership and housing upgrade, and high labor force participation for older cohorts. Older workers are indeed encouraged to stay active in the labor force, and the old-age labor force participation rate is relatively high, implying that older individuals continue to generate income rather than starting to dissave. Staff will look into a range of factors contributing to household savings as part of our ongoing work program for the next AIV.

6. Could staff elaborate on the role of being a financial center and of profit shifting practices by multinationals to explain Singapore current account surplus?

- As noted in previous documents related to the EBA methodologies (e.g., SM/18/176; EBS/16/8), the measurement of the external balance for economies serving as hubs for international financial flows is subject to great uncertainty, and these economies tend to have higher CA surpluses. Singapore's large CA norm is mainly explained by its large NIIP position, the high level of income per working-age population, rapid population aging, and high public health spending efficiency.

- It is difficult to comment on profit shifting as the team has not looked at corporate sector savings in detail. But it may be helpful to note that although the statutory CIT rate in Singapore at 17 percent is lower than the average central government CIT rate in OECD countries (21.7 percent), CIT revenues are higher at 3.3 percent of GDP (compared to an average of 2.9 percent of GDP among OECD countries).

Monetary policy

7. At the same time, the rising role of modern services sector in the Singaporean economy may call for the shift towards interest rate-based monetary policy in the future. Could staff elaborate under what conditions this shift would be warranted?

- As Singapore is a small and very open economy with a high import content, the exchange rate based monetary policy framework has served it well. At the same time, the success of the monetary policy framework over the past decades has been supported by strong economic fundamentals, including large fiscal buffers, high institutional quality, flexible product and factor markets, a sound financial system, and robust domestic corporate sector. While the growing services sector may have a relatively low import content, the monetary policy challenges stemming from a growing services sector can be expected to continue to be met within the current exchange rate-based framework.

Fiscal policy

8. The October 2018 Fiscal Monitor looked at government balance sheets more broadly and assessed related risks, which we found most useful. In this context, we would be interested to hear from staff whether they looked at risks to government assets in case one or multiple risks were to materialize? Does staff consider this would substantially impact the favorable fiscal position?

- Staff has not carried out an analysis of the risks to government assets in case of multiple shocks to valuations, as was done for other countries in the October 2018 Fiscal Monitor.
- The authorities have indicated that they monitor closely the risk and return profile of the total reserves. The Government's assets are mainly managed by GIC Private Limited, with a globally diversified portfolio spread across various asset classes. The Government also places deposits with the Monetary Authority of Singapore (MAS), with a significant proportion of its portfolio invested in liquid financial market instruments. In addition, the Government is the sole equity shareholder of Temasek Holdings (Temasek), which is an active, equity investor that aims to deliver sustainable long-term shareholder value.

9. ***The report seems to suggest that Singapore should further increase spending ("deploy more fiscal space") to address challenges including ageing and climate risks. […] We would kindly ask staff where they see the need to increase spending to address those two specific medium- and long-term risks more proactively at the current juncture?***

- Singapore faces a number of medium- to longer-term challenges that will require higher government spending, including age-related spending needs, climate change, expansion and renewal of infrastructure, and programs to help workers and firms adapt to technological change. There is some scope to bring forward some infrastructure projects, given the lumpiness in the need to rejuvenate the public housing stock and expand or renew other infrastructure (such as rail lines, airport, drainage).

10. ***Staff's comments on how the GST rate in Singapore compares to its peers are welcome.***

- The VAT rate in Singapore is currently 7 percent. The average VAT rate among OECD countries in 2018 is 19.3 percent. Among advanced economies that are also financial centers, the average VAT rate is 16.3 percent.

11. ***Could staff also comment on the introduction of the carbon tax which came into effect at the beginning of this year?***

- The introduction of the carbon tax followed a period of early engagement which reduced regulatory uncertainty and gave companies time to prepare. The first public communication on the need to price carbon was in 2010. The authorities engaged in regular conversations with large emitters and in consultations with the broader public on the role of carbon pricing in Singapore's climate strategy. The carbon tax was announced in 2017, for implementation in 2019, as part of a suite of mitigation measures. The Carbon Pricing Bill was issued in 2018, with details on the carbon tax mechanisms.

12. ***Could staff elaborate on the additional reforms it recommends to further strengthen climate change resilience in Singapore and reduce the carbon footprint of its economy?***

- As discussed in Appendix VI, in addition to the carbon tax, there are several additional mitigation efforts that will further help Singapore achieve its Paris Pledge. Singapore is aiming to increase solar deployment from 200 MWp in 2018 to 350 MWP by 2020, and 1000 MWp beyond 2020. By 2030, it is estimated that renewable energy could potentially contribute up to 8 percent of Singapore's peak electricity demand. The public transportation network will be expanded with the goal that, by 2040, during peak times 9 out of 10 trips will be on public transportation. Better connectivity will be achieved by doubling the rail network by 2030, increasing cycling paths, and expanding the sheltered walkway network. Other measures include doubling water supply without using more energy, increasing the overall recycling rate of water, mandatory energy labelling scheme, minimum energy performance standards for household products, and Green Mark Certification for buildings. Further details in these plans can be found in the Singapore's Fourth National Communication and Third Biennial Update Report.

Structural policies

13. Can staff confirm whether the "Adapt and Grow" scheme focuses on upskilling female workers who may be affected by automation?

- "Adapt and Grow" programs provide support for Singapore citizens, with different types and levels of support depending on the level of skills or occupation, the workers' experience and age, and the duration of unemployment, regardless of gender. Staff is not aware of targeted support for female workers under the "Adapt and Grow" initiative.

14. Regarding the revenue of low-wage workers, and given the risk that employers use inwork benefits to lower actual wages mentioned paragraph 10 of Annex VIII, we would be interested if staff could elaborate on the possibility of raising the minimum wage?

- Singapore does not have a minimum wage system. The National Wage Council (NWC) provides guidelines on wage-related issues which may be used as a reference in wage setting. The NWC is a tripartite body set up in 1972 comprising representatives from employers, the trade unions, and the government. The NWC each year makes recommendations on wage adjustments based on the tripartite consensus, taking into consideration factors such as productivity growth, international competitiveness and economic growth prospects. The guiding principle is to have wage increases sustainable and in line with economic and productivity growth. The guidelines are broadly observed in the public sector and are used as a framework for wage negotiations in unionized companies.
- Staff understand that the authorities' approach is to provide employment support through active labor market policies together with work income supplements for the low-wage workers, rather than implementing a broad-based minimum wage system. Staff understand that the authorities periodically review the "Progressive Wage Model" which provides career ladders for low-wage resident workers in specific

sectors to progress in their jobs and earn higher wages along the way. However, an introduction of a broad-based minimum wage system is unlikely.

15. The economy's growth may be slowing down at least in part due to the limited availability of labor. It is therefore unclear why the authorities continue to tighten expatriate worker policies (and therefore labor market supply) given this context. Could staff elaborate on this? Have other, perhaps less costly and more effective paths towards better job outcomes for locals been considered?

16. However, the foreign labor is an important source for growth, especially in the aging society. In this regard, we would welcome the staff's view on whether this labor limitation policy will positively affect the future Singapore's growth.

17. We take note of the authorities' plan to gradually tighten foreign labor limits in the service sector, but wonder whether the plan may lead to short-run rigidities in the labor force.

18. However, we would be interested in staff's view on the effectiveness of the planned tightening of foreign labor limits in the services sectors, notably in improving productivity. Staff's elaboration will be appreciated.

19. Could staff elaborate on the Fund's view on the imposition of restrictions on foreign workers?

Response to questions 15-19

- In staff's understanding, the authorities' decision to tighten foreign worker policies is based on a number of factors, including encouraging the hiring of local workers and encouraging the service sector to raise productivity through greater technology utilization. Additional considerations for the authorities' decision were that the share of foreign labor in the total workforce had reached about one third, and that the growth of foreign workers at the mid- and lower-skill level had outpaced the growth of the total workforce.
- In terms of improving job outcomes for locals, the authorities take a multipronged approach, including several programs targeting different levels of skills and work income support for the low-wage workers.
- With the stricter rule on the ratio of foreign workers, businesses need to either increase the hiring of local employees or increase productivity to rely less on labor. The authorities have planned a two-year phasing in period to allow businesses to make the necessary adjustments. In addition, there are several government-led support programs, including the Lean Enterprise Development scheme, that provides grants and digital solutions to increase operating efficiency and productivity, which should help in easing the transition. It would be important to ensure the utilization of

these programs to reduce the short-term frictions that are introduced by the tighter limits.

- The Fund does not hold an official view on the imposition of restrictions on foreign workers. For Singapore, we have advised that such restrictions be well communicated in advance to allow businesses to adjust and generate the least possible frictions in the economy.

Macroprudential Policies

20. While we note that staff recommends eliminating residency-based differentiation in the Additional Buyer's Stamp Duty (ABSD) by unifying rates, we would appreciate it if staff could elaborate more on additional cost and benefit of the recommendation.

21. Could staff elaborate a bit more on why it is suggested to eliminate the residency-based differentiation, and what are the possible implications, if any, on housing affordability for permanent residents/Singapore citizens?

22. We encourage the authorities to maintain their vigilance over the real estate sector. Staff recommends eliminating residency-based differentiation in the ABSD. We would be interested in additional information on the rationale for this recommendation and the authorities' reaction to it.

23. According to the report, the ABSD application is not the same between residents and non-residents. Could staff share more information on other countries cases with similar characteristics on how are they dealing with house prices overvaluation?

Response to questions 20-23

- Staff welcomes the authorities' continued close monitoring of conditions in property markets. The authorities have implemented a comprehensive set of property market cooling measures, including the Additional Buyer's Stamp Duty (ABSD) and limits on Total Debt Servicing Ratio (TDSR) and Loan to Value (LTV) caps, that have been critical to stabilizing the property market. The ABSD is a residency-based capital flow management/macroprudential measure because it applies differentiated rates to residents and nonresidents. The ABSD was implemented in response to a sizeable surge of inflows into the real estate market, which had contributed to a significant increase in real estate prices.
- There are both potential benefits and costs to the ABSD. On the cost side, with less foreign demand there may be less developer and construction activity, but this needs to be weighed against financial stability risks stemming from house prices deviating

from economic fundamentals and the conjunctural position in the economic cycle. Lower house prices may also enhance affordability considerations.

- In line with the Institutional View on the Liberalization and Management of Capital Flows, a further cautious relaxation of cyclical measures, including the elimination of the differences in rates applying to residents and non-residents in the context of the discriminatory ABSD could be considered as systemic risks stemming from the housing market dissipate.
- The presence of high correlation in cross-country house prices implies that house prices are driven not only by domestic factors (see for instance the 2018 Article IV Consultation) but also demand for safe assets or global investors' search for yield. The choice of macroprudential tools and/or supply-side measures used will depend on which segment of the market financial vulnerabilities are emerging, often requiring a multi-pronged approach. A range of CFMs applied to target housing market risks in other countries are detailed in IMF (2018), including the use of stamp duties in Hong Kong SAR and Australia. In addition, the recent Article IV staff reports for Australia and Canada describe implemented taxes targeted at non-resident transactions to contain real estate price increases.
- In the discussion with staff during the 2019 Article IV consultation, the authorities indicated that considering all aspects, including Singapore's city-state status and relative attractiveness of its property market, the ABSD in its differentiated form is still relevant to limit adverse spillovers from external (and speculative) demand to the rest of the market.

24. While staff suggests that macroprudential policies could be eased should downside risks materialize, does staff see a potential need for the implementation of additional macroprudential initiatives in the baseline scenario? And what is the assessment of the calibration of the tools used so far?

- The authorities have been proactive in using property-related macroprudential tools to contain the buildup of systemic risk related to the real estate sector. Singapore has used a large variety of measures, both credit-based (limits on LTV ratio, debt service-to-income ratio, loan tenure, mortgage service ratio…) and fiscal-based (stamp duties to contain demand by speculators and by foreigners).
- Staff does not see at this stage the need for additional macroprudential initiatives in the baseline scenario. The measures implemented so far appear to have been effective in containing systemic risk, namely by dampening price pressure in the real estate sector and building resilience among borrowers and lenders. Hence, one can conclude that these measures have been appropriately calibrated, given these goals (contain systemic risk and build resilience).

25. We would welcome staff's comments on the property valuation system, particularly when it was last conducted and whether its reform could potentially further cool off the housing market.

- In the Article IV consultation, staff did not discuss the specifics of the property valuation system with the authorities. The sustainability of the property market is assessed not on valuation alone but based on a comprehensive set of indicators (including prices, transactions, supply of housing, demographics, income growth, underwriting standards).
- It may be useful to note here that the government plays a central and active role in housing market policies given the scarcity of land and its importance for social, economic and financial stability. The government provides public housing—about 80 percent of residents live in such housing, while the remaining 20 percent of residents live in private housing.

Bank Foreign Exchange Liquidity

26. Staff mentions that liquidity stress tests reveal a vulnerability in US Dollar liquidity. Given these results and mindful of the importance of the US Dollar, staff advises banks to strengthen their foreign exchange liquidity. In this context, could staff comment on whether other currencies could usefully complement bank funding and thereby reduce the dependency of Singapore's banks on the US Dollar?

- Currency diversification of bank funding would be useful to reduce the dependency of Singapore's banks on the U.S. dollar and the risk from a severe decline in U.S. dollar liquidity. But it would not fundamentally change the assessment that banks should seek to hold more foreign exchange liquidity, to self-insure more against their foreign currency liquidity risk.

Cybersecurity

27. We take note that a Cybersecurity Act was adopted in 2018. Could staff comment further on the features of this act?

- The Cybersecurity Bill was passed in February 2018 and came into power shortly after. The Act establishes the legal framework for the oversight and maintenance of national cybersecurity in Singapore. It is aimed at critical infrastructure which includes ten sectors (i.e. energy, water, healthcare, transport, information technology and communications, media, banking and finance, security and emergency services, and government). The Act sets out the obligations of critical infrastructure to protect against cyber-attacks.

- The main features of the Act include:

- The Act establishes prevention and response expectations;
- The Act facilitates information sharing; and,
- Establishes a light-touch licensing framework for cybersecurity service providers which need to undertake penetration testing and monitoring activities
- The Cybersecurity Act establishes expectations for critical infrastructure at a national level, and to complement this, MAS has implemented sectoral requirements and guidance in addition which is tailored specifically to business models and risks faced by financial institutions and aligns with MAS' mandate to maintain financial stability and safety and soundness of the financial system.

AML/CFT

28. Staff's comments on the authorities' planned application of AML/CFT measures payment service providers and how these measures would address transnational ML/FT risks are welcome.

- As indicated in the Technical Note "Singapore: Fintech—Implications for Regulation and Supervision of the Financial Sector" (SM/19/177), Singapore's approach to digital tokens is broadly in line with the AML/CFT standard but nevertheless requires some further adjustments. The existing AML/CFT framework applies to all virtual asset service providers as defined by the FATF except standalone custodian wallet service providers (which Singapore intends to bring in the MAS regulatory fold in the next phase of legislative changes) and providers that are created in Singapore but do not carry out their business activities in Singapore. The FSAP therefore encouraged the authorities to ensure that these categories are covered by the AML/CFT framework and to apply a risk-based approach to AML/CFT supervision of service providers. This includes, where necessary, stronger regulatory action to address the transnational ML/TF risks.

29. Building on the recent efforts to strengthen the AML/CFT framework described in the FSSA, could staff be more specific on the main AML/CFT areas where Singapore needs further progress and notably detail the remaining gaps in terms of beneficial ownership information?

- The mutual evaluation report of the FATF and Asia Pacific Group on Money Laundering recommended that the authorities deepen their understanding of the specific risks associated with Singapore's position as a global wealth and asset management center (which include vulnerabilities relating to the opacity of certain corporate structures). Singapore has made significant strides in better understanding the ML/TF risks it faces (including with the development of several typologies, including one on the risks posed by various types of legal entities). The latest National Risk Assessment by Singapore also has recognized an increase in the number of money laundering cases involving shell companies established by non-residents based overseas. We would encourage the authorities to continue deepening their understanding of such schemes and develop appropriate mitigation strategies.

- With respect to the availability of beneficial ownership information, Singapore has made important advancements in its legal framework to require the identification of beneficial owners by various service providers. The next critical step is to ensure proper oversight of the implementation of these provisions. Towards this end, Singapore has begun strengthening supervision of certain designated non-financial businesses and professions (DNFBPs). We would encourage the authorities to continue these efforts and to focus in particular on trust and corporate service providers. We would also encourage the authorities to ensure that obligations of companies and partnerships to maintain registers of their beneficial owners are properly supervised.

Risks

30. We would also be interested in staff elaborating on the risk of a disorderly Brexit for Singapore as highlighted by the authorities. (Mr. Raghani)

- A disorderly Brexit is source of risk to growth. While the direct impact of Brexit is expected to be limited, there could be large indirect effects, through exposure to the EU and global financial market volatility. Tighter or more volatile global financial conditions, including because of a possibly protracted period of uncertainty in financial markets related to a disorderly Brexit, could lead to sharp asset price declines, a rise in credit spreads, and currency volatility, with adverse impact on growth.

31. Regarding the latter, can staff elaborate on the mitigating effect that households' impressive net assets position can have on a disorderly in property market if any?

- The household sector, as a whole, has a strong financial position with total net assets amounting to 376 percent of GDP at end-2017. In general, the positive net asset position could reduce the probability of default in the event of a negative housing price shock. However, the wealth and income are not equally distributed in Singapore. Therefore, as shown in the FSSA, while a significant proportion of households remains resilient under a severe stress scenario, a small segment of highly-leveraged, low-income households as well as younger borrowers could face repayment difficulties upon the severe house price shock. Moreover, because house prices have contributed the most to developments in household assets, with about 44 percent of assets comprising residential property, the household sector is sensitive to house price fluctuations.