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**Statement by Mr. Kiekens on Singapore
(Preliminary)
Executive Board Meeting
July 2, 2007**

I have little enthusiasm for the so-called “streamlined” Consultation and streamlined reports. However, if some Consultations do have to be “streamlined”, I suppose Singapore qualifies to be one of them, given the healthy state of the economy and the substantial common ground between the Singapore authorities and the Fund staff.

As a small open economy, Singapore could be particularly affected by changing global conditions. However, as the staff remarks, with the authorities’ pragmatic micro-management and continuing structural reforms, Singapore has not only benefited from globalization but its economy has also become more resilient. Singapore’s recent growth performance has been impressive, inflation has been subdued, and the employment and wage situation has been generally good. Financial markets have been stable and so are property markets although prices in the latter, particularly at high end, have been increasing sharply. On the whole, there is little in the near term outlook to cause concern.

Fiscal Policy

Singapore has had a record of fiscal prudence and that record is being sustained. On its macro aspects, little needs to be said. The country faces the challenges of population aging and increasing income inequality but it seems that fiscal space can be created to deal with them. The budget for the current year provides for a two percentage point increase in the goods and services tax (to 7 percent). This could have an adverse impact on the consumption capacity of low-income earners. However, we welcome the authorities’ assurances that the offsetting measures which they have taken more than compensate for any adverse impact.

Monetary and Exchange Rate Policy

If the assigned task of monetary policy in Singapore was, as it is, to keep inflation low in support of sustainable economic growth, it has performed its task well. For doing so, it operates through the foreign exchange market where it keeps the exchange rate of the Singapore dollar stable within a mildly appreciating band, intervening as necessary and sterilizing the liquidity impact of such intervention. The staff has suggested that under

conditions of persistent large capital inflows, the Monetary Authority of Singapore (MAS) should refrain from sterilization, allowing the resultant decline in interest rates and the rise in inflation and concomitant appreciation of the real exchange rate, to discourage capital inflows. The authorities did not see the need for such modification of their way of managing liquidity, providing persuasive arguments. In this regard, I also appreciate the points made by Mr. Warjiyo and Ms. Tok in their excellent Buff statement. And, I must say that I have some sympathy for them. In any event, as a practical matter, I would think that the authorities, who as the staff has said, are pragmatic in their policies, are apt to pursue a policy that would be most appropriate for a particular occasion.

Both the authorities and the staff consider that inflation expectations are well anchored at present and that, therefore, there is no need to change the monetary policy stance of a modest tightening. In this connection, I would like to seek staff reactions to the following two points:

(i) I note from Table 2 on Page 19 of the Staff Report that the expansion of both money and domestic credit has increased sharply in 2006 and early 2007, each running at about 23 percent in the more recent period. I am aware, of course, that the MAS does not target credit, money or interest rates. The staff makes no comment on this development (perhaps sacrificed at the altar of “streamlining”?). However, I wonder whether it has no implication for inflation expectations and monetary policy.

(ii) The labor market is already tight, the unemployment rate in 2006 and the projection for 2007 being 2.7 percent, compared with an average of 3.5 percent during 2002—05 and a recent peak of 4.0 percent in 2005. The Ministry of Manpower is reported to have estimated that in order to meet the 450,000 expected job creation in the next 5 years, the labor force needs to grow by 3.5 percent annually, a significantly higher rate than the average of 2.4 percent during 2000—06. The demand for high earning professionals in the financial sector is also growing rapidly. What bearing do these elements have on inflation, inflation expectations and monetary policy?

Exchange Rate

On the issue of the exchange rate, I suppose we need to remain agnostic. The authorities take the view, on the basis of their empirical analysis, that the present level of the exchange rate is “broadly in line with the fundamentals.” The staff takes the view that as part of the process of adjustment to a smaller current account surplus, the Singapore dollar would appreciate. But they express inability to pinpoint the extent of the undervaluation from a long-term perspective. The staff is probably right in not venturing forth to do so; the difficulties in such a venture are now increasingly being identified in the economic literature. All the same, I wonder whether the staff would like to make any further comments on this matter.

Financial Stability

The authorities are justified, and should be supported, in their objective of achieving an even heightened role for Singapore as a global financial center. I compliment them for maintaining the soundness of the financial system, with no short-term risks, for implementing most of the

2004 FSSA recommendations and for being on track for the adoption of Basel II in early 2008. The staff quite properly underscores the need for cross-border risk management in financial institutions and by the authorities.

Medium-term Challenges and Structural Change

Over the past years, the authorities have commendably brought about significant structural strengthening of the economy. However, the process has to be a continuing one, especially as the world economy continues to transform. One objective in this respect is to sustain robust economic growth. Under this rubric, there are two main elements, as identified in the Staff Report. One is to foster competitiveness, the other element is to provide the domestic private sector with a level playing field for its activities, lest it be stifled by the broad range of public sector activities. I agree with what the staff has said in both these respects, including the present extensive use of tax incentives to promote competitiveness. The assurance given by the authorities in that respect is welcome.

The other medium-term challenge has to be to address the rising income inequality. Here, I must commend the staff for the concern they showed during the Consultation discussions, about issues of income distribution and the impact of particular policy measures on low-income groups. Naturally, of course, the authorities fully share this concern. I welcome the Workfare Income Supplement Scheme in the current budget. In this connection, I would like to ask the staff how significant quantitatively the supplements are. I endorse the staff suggestion that the authorities consider introducing an unemployment insurance scheme, in view particularly of its possible usefulness as an automatic stabilizer and welcome the authorities' assurance that they do not rule out the possibility of broadening the social safety net in the future. I also welcome the Central Provident Fund reform measures taken in the recent years to enhance financial security in retirement.

In conclusion, I commend the authorities on their successful management of the economy.