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**Statement by Mr. Shaalan and Ms. Caracalla on Singapore
(Preliminary)
Executive Board Meeting
July 2, 2007**

1. We welcome this streamlined consultation discussion on Singapore. Buttressed by sound policies and ongoing structural reforms, the impressive performance of the Singaporean economy continued in 2006. This is reflected in sustained robust growth, subdued inflation, and large external and fiscal surpluses. Indeed, Singapore has successfully harnessed the various benefits of increased integration in the world economy, including by enjoying export market expansion and establishing itself as a major international financial center. However, like many emerging and developing countries, the gains from globalization come hand in hand with new challenges. This is inevitable. In particular, staff point to the importance of further deepening structural reforms to sustain robust growth, address rising income inequality, and ensure continued growth and stability of the financial sector. These are most critical challenges, especially given the increasing questions raised about the benefits and drawbacks of globalization. We are hopeful that the authorities will be able to successfully address them. In what follows, we focus our remarks on key policy issues highlighted by staff in their balanced and well-written report.

2. We commend the Monetary Authority of Singapore (MAS) for its skillful conduct of monetary policy. We concur with staff's assessment that there is no compelling reason at the moment to change the current monetary policy stance that aims at keeping inflation expectations well anchored, by targeting a modest and gradual appreciation of the NEER. Moreover, sterilization operations—a legitimate domestic policy instrument for containing inflationary pressures—have so far been successful in ensuring adequate liquidity in the banking system, while keeping inflation at low levels, therefore maintaining internal balance. Staff recommend, however, that the MAS refrain from sterilization, should large capital inflows persist. We find the staff's recommendation to be baffling, for the very same reasons that are clearly stated in the very helpful statement by Mr. Warjiyo and Ms. Tok. *Staff elaboration on the issue of sterilization would be welcome.*

3. With regard to the exchange rate, the authorities indicate that based on their empirical analysis, its level appeared broadly in line with fundamentals. Moreover, the MAS reviews

the policy band semiannually and adjusts it if necessary to ensure its consistency with economic fundamentals and market conditions. Footnote 7 of the staff report indicates that estimates based on the CGER methodology yield an undervaluation from a medium-term perspective in the range of 15–20 percent, while other estimates by the mission team did not yield conclusive evidence that the Singapore dollar is significantly undervalued. Last year’s consultation with Singapore also concluded that “there are no discernible sign of exchange rate misalignment.” These wide-ranging results confirm once again the serious limitations presented by the CGER methodology in underpinning exchange rate surveillance.

4. Against this background, we agree that the large current account surplus reflects continued large savings and in particular, sluggish investment, and would be brought down following the expected recovery of investment. In fact, the medium-term scenario projects the surplus to GDP ratio to decline to about 22 percent in 2012, and to narrow further over the long term as the economy’s high savings rate declines with population aging.

5. We commend the authorities for a prudent fiscal policy that has resulted in large fiscal reserves over the past years. Higher tax and non-tax revenues together with slower-than-planned development spending and net lending resulted in a better-than-budgeted fiscal performance in 2006. We note that the 2007 budget envisages a shift toward indirect taxation that will be accompanied by offsetting measures to help alleviate the impact of increased indirect taxation on consumption. *Could staff elaborate further on these measures and clarify whether they hold diverging views on the appropriate magnitude of the offset package or on its phasing or targeting?*

6. Increased competition from low-cost countries resulted in stagnant wages among low-skilled labor, which in turn led to rising income inequality. Besides its social implications, if left unaddressed, growing inequalities may undermine long-term growth prospects and macroeconomic stability. In this regard, we welcome the introduction of the Workfare Income Supplement (WIS) scheme in the 2007 Budget. We also note that the authorities do not rule out the possibility of further broadening the social safety net in the future. Going forward, we concur with their view that work is the best form of welfare. To this end, we are encouraged that they will persevere with measures aimed at sustaining robust growth, promoting higher value-added activities, and investing in training programs aimed at upgrading workers’ skills. These efforts, together with improved labor market flexibility and enhanced spending on health education and infrastructure, would help ensure better opportunities for low-income workers.

7. With these remarks, we again congratulate the authorities on their highly successful management of the economy and wish them continued success.