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June 29, 2007

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

1. We thank staff for a well focused report and Mr. Warjiyo and Ms. Tok for their insightful buff statement. Singapore's economy continues to perform strongly, supported by responsible macroeconomic policies and structural reforms. We commend the authorities for the continued robust and broad-based economic growth, low inflation, strong fiscal and external positions, and sound financial sector. Furthermore, we observe that the economy has become more resilient to changing global conditions, and unemployment has declined significantly. Looking forward, economic prospects for Singapore are favorable. Nevertheless, the authorities need to remain vigilant to address medium-term challenges stemming from the increasing globalization. In this connection, we encourage them to deepen structural reforms necessary to sustain high growth, safeguard financial sector stability, tackle the income inequality as well as aging population issues. We broadly agree with the thrust of staff appraisal and will comment on fiscal and monetary policies, as well as structural reforms for emphasis.
2. The authorities should be commended for their sustained prudent fiscal policy stance, which resulted in large fiscal savings allowing them the needed flexibility to cope with costs associated with aging population and social safety nets for low-income households. We welcome steps taken to align the budget with medium-term priorities, including a qualified expansion of spending to strengthen social sector services, and upgrade productivity-enhancing infrastructure. On the revenue side, while we support the authorities' objectives to enhance competitiveness, we are of the view that an expansion of tax incentives and exemptions could introduce distortions in the economy and compromise tax efficiency. We are, however, reassured by Mr. Warjiyo and Ms. Tok that the authorities are implementing measures directed towards setting revenue on a more sustainable structure.
3. We observe that the exchange rate-centered monetary policy framework has so far served the economy well, and has contributed to contain inflation at low levels in support of economic growth. The financial system is sound and healthy, supported by improved financial position of banks, corporates and households. Notably, short run risks to the

financial system are not evident as staff has assessed. However, there should be no room for complacency, given that the increasing role of Singapore as a global financial center leads to increased bank's indirect exposures through international banks and counterparties. We, therefore, see the MAS's ongoing efforts to improve risk-management capabilities and enhance cross-border supervision as steps in the right direction.

4. One of the main challenges for the authorities is to deepen structural reforms with a view to sustaining high economic growth. In this connection, we welcome their plan to consolidate the progress made so far in promoting high value added sectors, supporting research and development, strengthening human capital, enhancing labor market flexibility, and further reducing the cost of doing business. The operationalization of the Competition Commission is also a positive development, and we encourage the authorities to further promote private sector-lead growth.

5. With these remarks, we wish the authorities all the best in their future endeavours.