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June 29, 2007

**Statement by Mr. Kitahara and Mr. Kitamura on Singapore
(Preliminary)
Executive Board Meeting 07/57
July 2, 2007**

We thank the staff for their well-focused report, and Mr. Warjiyo and Ms. Tok for their informative and helpful statement.

We welcome the recent favorable performance of Singapore's economy with sustained robust growth, subdued inflation and strong fiscal position. We also welcome the buoyant export performance which has contributed to further strengthening the country's external position.

The staff paper for this streamlined consultation rightly focuses on important issues for the country, and candidly describes some differing views between the authorities and the staff, which we appreciate. We concur with the thrust of the staff paper, and will limit our comments to the following two specific points.

First, while the staff and the authorities broadly agree with the appropriateness of the current monetary framework centered on the management of exchange rate, they differ on the sterilization operation which has rapidly increased in order to cope with the surge in foreign capital inflows. The staff expects that the termination of the operation would lead to a reduction in persisting capital inflows; whereas the authorities are skeptical about its effectiveness. In our view, this divergence seems to partially derive from their differing views on the nature of current foreign inflows and/or investor sentiments. In this regard, *we would like to ask the staff to elaborate on the nature of the current capital inflows, including their elasticity against reduction in domestic interest rates.*

Additionally, as indicated in Mr. Warjiyo's and Ms. Tok's statement, the authorities seem to be concerned that the termination of sterilization will result in high liquidity, thereby lead to excessive domestic credit expansion and overheating of the asset markets. *We are interested in knowing the staff's view on this point.*

Second, while in general we agree with the staff that the use of tax incentives should be streamlined, such incentives might be justifiable on a case-by-case basis. It might be worthwhile for the staff to further analyze this topic in detail in future consultations.

With these remarks, we wish the authorities every success in their future endeavors.