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

With continuing strong growth and increasing diversification toward more competitive sectors, as well as a strong fiscal and external position, the outlook for Singapore remains impressively encouraging and risks are broadly balanced. As Mr. Warjiyo and Ms. Tok underline in their informative statement, prudent fiscal and monetary policies have served to maintain price stability in the face of robust economic expansion, sustained for nearly four years, and large capital inflows. Moreover, as staff note, Singapore has generated large public savings to deal with the long-term financial requirements of ageing. The authorities should be commended for their economic management.

Against this favorable background, there are a few issues of qualitative significance that merit particular focus. As the authorities and staff agree, the prevailing exchange rate regime has been the anchor of stability and appropriately guided monetary policy. Despite the large current account surpluses, there is little evidence that points to a significant undervaluation of the currency. As staff highlight (Box 2) and Mr. Warjiyo and Ms. Tok emphasize, structural factors, such as sizeable government savings, the possible impact of ageing and the shift to information-based industries and services, may better explain the current account surplus, which is projected to decline over the medium term. Consequently, the accommodation of the recent large capital inflows and domestic liquidity needs through sterilization in line with the exchange rate target band, rather than interest rate interventions, is appropriate. In a small open economy like Singapore, monetary interventions through interest rates may not be effective enough to have a significant impact on capital flows, since the domestic interest rates tend to reflect the international rates within a narrow margin.

Strong growth with wage and price stability and competition from low wage countries have resulted in stagnant wages for low skilled workers. While the contained wage growth serves to maintain Singapore's competitive edge, as the authorities and staff agree, there is room for some structural reforms to further improve competitiveness. Two important issues emerge in this context, which have long-term implications for maintaining robust growth. The first is the need for greater investment in human capital and skills, improvements in the business climate, and tax competition. The second issue is addressing growing income inequality and creating a more generous social safety net without creating serious employment disincentives. As regards the first issue, the authorities have reduced the corporate income

tax rate and expanded the scope of tax exemptions under the FY2007 budget. However, while the authorities make a compelling case that tax incentives are well-targeted and reflect a careful cost-benefit analysis, we agree with staff that consideration should be given to their streamlining, since they tend to be distortionary and, in most cases, they undermine overall competitiveness. Given Singapore's comfortable fiscal position, overall competitiveness and growth may benefit from a less selective approach of low tax rates. Improving information flows through greater fiscal transparency may also have a positive impact on competitiveness and investor confidence. Mr. Warjiyo and Ms. Tok also emphasize the authorities' ongoing efforts at upgrading low-wage earners' skills to broaden their access to higher paid jobs.

Concerning the issue of rising income inequality and the need for a more generous social safety net, the authorities have introduced the Workforce Income Supplement (WIS) to support incomes of low-wage earners. Broadening the existing social safety net arrangements, which the authorities do not rule out, and efforts to upgrade job skills may be a more viable alternative to temporary unemployment insurance, even a limited one as suggested by staff, provided that access to temporary financial assistance by the needy is secured; some clarification of the sources and prompt availability of such assistance would be welcome. On-going reforms of the Central Provident Fund would help increase low-income household pensions at retirement.

The financial sector, at the center stage of Singapore's economy, is robust and can withstand potential risks. Most of the 2004 FSSA recommendations have been implemented and adoption of Basel II is imminent. Strengthening cross-border risk management by financial institutions and monitoring by the authorities will be consistent with Singapore's growing role as a major financial sector. As in the case of all major financial centers, this will also require wider cross-border cooperation and information sharing among financial sector supervisors and regulators.

We wish the Singaporean authorities further success in their endeavors.