International Monetary Fund

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IMF Executive Board Concludes 2013 Article IV Consultation with Singapore

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On November 8, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Singapore.

Since the robust recovery from the global financial crisis, Singapore's growth momentum has eased and become more erratic. Growth decelerated to 1¼ percent in 2012 before picking up sharply in the first half of 2013. This reflects shifts in G3 (U.S., Europe and Japan) demand and global risk appetite. At the same time, the current account surplus narrowed sharply to a still-high 18½ percent of GDP in 2012, and previously elevated inflation subsided to 2 percent as house and car price appreciation eased in response to restrictive macroprudential policies.

Leverage rose strongly in recent years, with real estate a major beneficiary. Bank loans expanded briskly, reaching more than 170 percent of GDP in mid 2013. Real estate-related loans grew especially fast, and housing and construction accounts for 46 percent of bank loans while household indebtedness is more than double household income. Nonetheless, the increase in credit appears to have provided only a muted impetus to real activity.

After rising some 55 percent since 2009, house prices recently stabilized on intensive application of macroprudential policies. Appetite for real estate by both residents and nonresidents has been fuelled by very low interest rates, ample global liquidity, provisions in the pension scheme that encourage house purchases, and the rise in the number of permanent residents. Nearly half of household wealth is held in the form of real estate. An escalating series of broad-based macroprudential policies has contained residential property prices.

Singapore's large and highly-developed international financial center has continued to expand despite volatile global conditions. Local financial markets absorbed expectations of future tapering by the Federal Reserve and the accompanying turbulence in emerging markets with limited volatility so far. Currency and equity prices weakened only modestly, but longterm interest rates have risen by around 1 percentage point.

To address the dual challenges of shifting from labor-intensive growth and impending labor force aging, the authorities have embarked on policies to enhance labor productivity. Foreign worker inflows have been slowed and fiscal support for skills and technology upgrading and higher wages have been offered. These ongoing structural changes will slow the pace of growth, make inflation more responsive to an increase in demand, and permanently raise the real exchange rate. Rising life expectancy will sharply raise the old-age dependency ratio and increase the need for aging-related social spending.

The near-term outlook is for GDP to grow by 3½ percent in 2013–14, supported by stronger demand from major advanced economies, despite some softening in regional economies. Improved external demand will slow the adjustment in the current account, which is expected to narrow modestly to around 17½ percent of GDP by 2014. A positive output gap and rising labor costs are projected to raise core inflation, but headline inflation is forecast to stabilize at 2½ percent on smaller increases in housing rents and car permit costs.

Executive Board Assessment[2]

Executive Directors welcomed the authorities' sound policies and skillful macroeconomic management that have spurred the rebound in economic activity and kept inflation in check. Looking ahead, Directors counseled vigilance against a reemergence of inflationary pressures and risks in the financial and housing sectors, and stressed the importance of further efforts to promote external rebalancing and address demographic challenges.

Directors concurred that cyclical conditions call for a moderately restrictive policy mix. A tight monetary stance, reflected in the current targeted nominal exchange rate appreciation, will help avoid overheating and anchor inflation expectations. Macroprudential policies should continue to be deployed as needed to contain asset prices and promote prudent lending. At the same time, Directors agreed that the modest fiscal stimulus in the budget is warranted to enhance productivity and relieve future supply constraints.

Directors welcomed the 2013 finding under the Fund's Financial Stability Assessment Program that Singapore's financial regulation and supervision frameworks are among the best globally. They noted, however, that the rapid growth of credit and real estate prices in recent years could exacerbate aggregate sensitivity to macroeconomic shocks and interest rate cycles. Directors agreed that banks' large capital and liquidity cushions, together with appropriate macroprudential actions, will help mitigate risks. They recommended a countercyclical capital buffer, stepped-up onsite inspections of banks' credit risk, and strengthened foreign currency liquidity practices by banks. They noted important legal changes adopted by the authorities related to the regime against money laundering and the financing of terrorism and called for vigorous enforcement of their international commitments in this area.

Directors took note of the staff's assessment that Singapore's external position appears to be stronger than warranted by fundamentals, suggesting the importance of further efforts to narrow the current account surplus over the medium term. Directors accordingly supported the authorities' plans to raise public expenditure in infrastructure and targeted social spending. The latter, together with measures to boost labor productivity, will also help address the challenges from population aging and prospective workforce decline. A few Directors considered that a faster pace of nominal exchange rate appreciation might aid external rebalancing.

Singapore: Selected Economic and Financial Indicators, 2008–14

						Proj.	
	2008	2009	2010	2011	2012	2013	2014
Growth (percentage change)							
Real GDP	1.7	-0.8	14.8	5.2	1.3	3.5	3.5
Total domestic demand	11.8	-7.6	6.6	6.5	9.7	4.1	3.4
Consumption	3.6	0.5	7.2	3.7	0.9	3.9	2.7
Private consumption	2.9	-0.5	6.2	4.6	2.2	2.5	2.8
Gross capital formation	28.5	-21.0	5.4	12.7	26.8	4.5	4.4
Saving and investment (percent of GDP)							
Gross national saving	44.5	42.7	48.2	46.8	45.6	45.3	45.0
Gross domestic investment	29.3	25.0	21.4	22.2	27.0	27.1	27.4
Inflation and unemployment (period average, percent)							
CPI inflation	6.6	0.6	2.8	5.2	4.6	2.5	3.1
Core CPI inflation	5.7	0.0	1.5	2.2	2.5	1.9	2.8
Unemployment rate	2.2	3.0	2.2	2.0	2.0	2.1	2.3
Central government budget (percent of GDP) 1/							
Revenue	24.2	19.3	20.6	23.5	22.9	21.9	22.3
Expenditure	16.3	18.0	15.2	14.5	14.9	16.1	17.1

Overall balance	7.9	1.3	5.4	9.0	8.0	5.8	5.2
Primary balance 2/	-1.0	-3.8	-1.1	0.5	0.8	-0.5	-1.5
Money and credit (end of period, percentage change)							
Broad money (M2)	10.4	8.7	7.6	11.8	6.8	...	...
Credit to private sector	12.4	3.1	13.2	18.9	11.3	...	...
Three-month interbank rate(percent)	1.0	0.7	0.4	0.4	0.4	...	...
Balance of payments 3/ (US$ billions)							
Current account balance	28.8	33.5	62.0	65.3	51.4	52.4	53.9
(In percent of GDP)	(15.1)	(17.7)	(26.8)	(24.6)	(18.6)	(18.3)	(17.5)
Trade balance	42.8	49.3	66.0	72.7	60.9	63.1	67.4
Exports, f.o.b.	354.6	288.5	371.0	434.1	435.8	433.2	457.1
Imports, f.o.b.	-311.7	-239.2	-305.0	-361.5	-374.9	-370.1	-389.7
Financial account balance	-16.2	-24.6	-22.4	-44.2	-28.5	-28.6	-37.7
Overall balance	13.1	11.3	42.2	17.1	26.1	23.8	16.2
Gross official reserves (US$ billions)	174.2	187.8	225.8	237.7	259.3	283.1	299.4
(Months of imports) 4/	(6.5)	(5.6)	(5.7)	(5.8)	(6.3)	(6.6)	(6.6)
Singapore dollar/U.S. dollar exchange rate (period average)	1.41	1.45	1.36	1.26	1.25	...	...
Nominal effective exchange rate (percentage change) 5/	3.51	-0.11	3.07	3.73	2.40	...	...

Sources: Data provided by the Singapore authorities; and IMF staff estimates and projections.

1/ On a calendar year basis.

2/ Overall balance excluding investment income, capital revenue, and interest payments.

3/ The authorities recently migrated to the *Balance of Payments Manual 6* (BPM6), which resulted in some balance of payments data revisions.

4/ In months of following year's imports of goods and services.

5/ Increase is an appreciation.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board,

summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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