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June 12, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Singapore - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Singapore, which has been tentatively scheduled for discussion on Monday, July 7, 1986.

Ms. Ripley (ext. 6531) or Mr. Otani (ext. 7305) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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SINGAPORE

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the
1986 Consultation with Singapore

Approved by Hubert Neiss and Eduard Brau

June 11, 1986

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I. Introduction

The 1986 Article IV consultation discussions were held in Singapore during the period March 31-April 11, 1986. ^{1/} The Singapore delegation was led by Dr. Teh Kok Peng, Director of the Economics Department of the Monetary Authority of Singapore (MAS). The mission met with Dr. Richard T. T. Hu, Minister of Finance and Chairman of the MAS; Mr. J. Y. M. Pillay, Managing Director of the MAS; and with representatives of the MAS, the Ministry of Finance, and the Ministry of Trade and Industry, as well as with members of the financial community. Singapore has accepted the obligations of Article VIII, Sections 2, 3, and 4.

The last Article IV discussions were held in October/November 1984, and the staff report (SM/84/278, 12/20/84; and Cor. 1, 1/8/85) was reviewed by the Executive Board on January 18, 1985 (EBM/85/8). The authorities were congratulated by Executive Directors on the success of their economic policies, which had resulted in sustained rapid growth, accompanied by low rates of inflation and a strong external position. Cautious financial policies, especially in the fiscal field, were seen to have contributed importantly to such an achievement. Several Directors noted, however, the rising share of government expenditures in gross domestic product (GDP), and urged the authorities to contain this share. It was also observed that government policies had frequently been shaped to amplify the workings of market forces. Directors supported Singapore's exchange rate policy which aimed at the twin objectives of achieving price stability and safeguarding export competitiveness. At the same time, however, it was felt that the impact of the high wage policy in recent years on profitability and competitiveness had yet to be fully evaluated.

In the event, the years 1985 and 1986 are likely to prove a watershed in Singapore's economic development. After two decades of sustained growth averaging over 9 percent per annum in real terms, real GDP fell by almost 2 percent in 1985; a further decline is expected in 1986, with future growth projected to be significantly lower than that attained in the past (Chart 1). The government budget moved into deficit for the first time in 1985/86 (fiscal year ending March 31), and a deficit is expected to persist in the near term before balance is established. However, the balance on external current account is expected to strengthen further in 1986, moving into surplus for the first time. Policies are being closely examined, and in some areas, such as those relating to labor costs, there has been a marked shift in strategy. Many policy adaptations have been implemented while others are continuing to evolve.

^{1/} The staff team comprised D. Ripley (Head), I. Otani, D. Robinson (all ASD), and S. Richupan (FAD), with L. Unterholzner (ETR) as secretary.

II. The Economic Setting

1. Retrospective

The growth of real GDP averaged some 10 percent in the 14 years to 1979, supported by the strategy of the Singapore authorities to promote the rapid expansion of export-oriented activities and the inflow of foreign direct investment. This strategy also led to an open economy, extremely sensitive to developments in demand and trade policies abroad. 1/ High levels of unemployment, characteristic of the years immediately following independence, were absorbed, and by the second half of the 1970s the number of foreign workers had increased noticeably. Financial policies were cautious, with the government budget consistently in surplus. High priority was accorded domestic price stability, and the strength of Singapore's exchange rate played an important role in limiting imported inflation. 2/ The current account deficit, largely financed by direct investment inflows, tended to decline, while Singapore's external reserves strengthened.

Concurrently with the second round of oil price increases, the Government decided to accelerate its policy of upgrading the skills of the labor force and of promoting high-value added and high-tech industries. The introduction in 1979 of a levy to support the Skills Development Fund, designed to provide training for workers, was intended to encourage businesses to economize on labor and to support productivity growth. Further, mandatory contributions by employers to the Central Provident Fund (CPF) were raised on several occasions, increasing from 16.5 percent of wages in 1978 to 25 percent in 1984. 3/ And the National Wage Council (NWC) 4/ recommended wage increases averaging 13-14 percent per annum in the three years to 1981 under the wage correction policy. Expectations were for a marked acceleration in productivity gains. In the following three years, wages continued to rise rapidly, increasing by 11 percent annually, well in excess of productivity gains. Thus, in the five years to 1984, labor costs in manufacturing increased by almost 90 percent, but productivity rose by less than 35 percent. This discrepancy notwithstanding, a significant upgrading of the skills of the labor force was seen to have been achieved, as illustrated by the structure of employment.

1/ The ratio of total exports to GDP exceeded 150 percent in 1980.

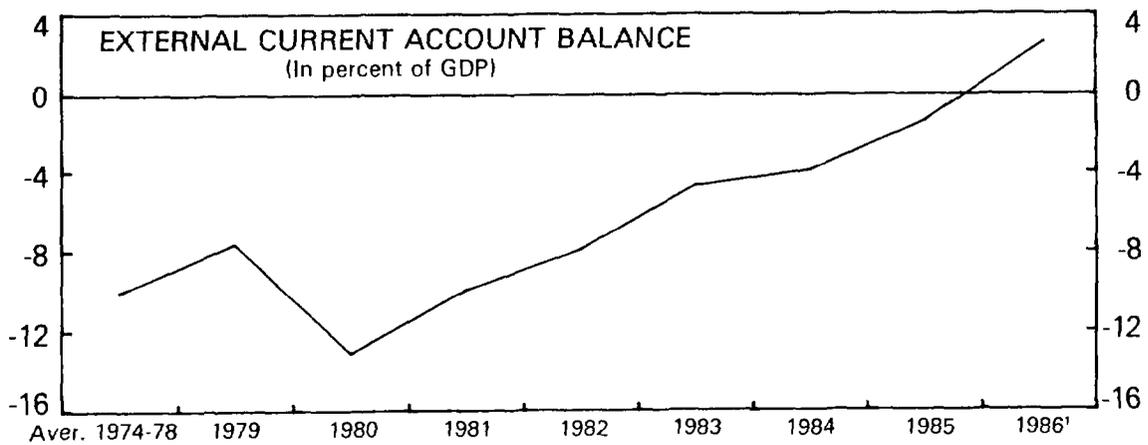
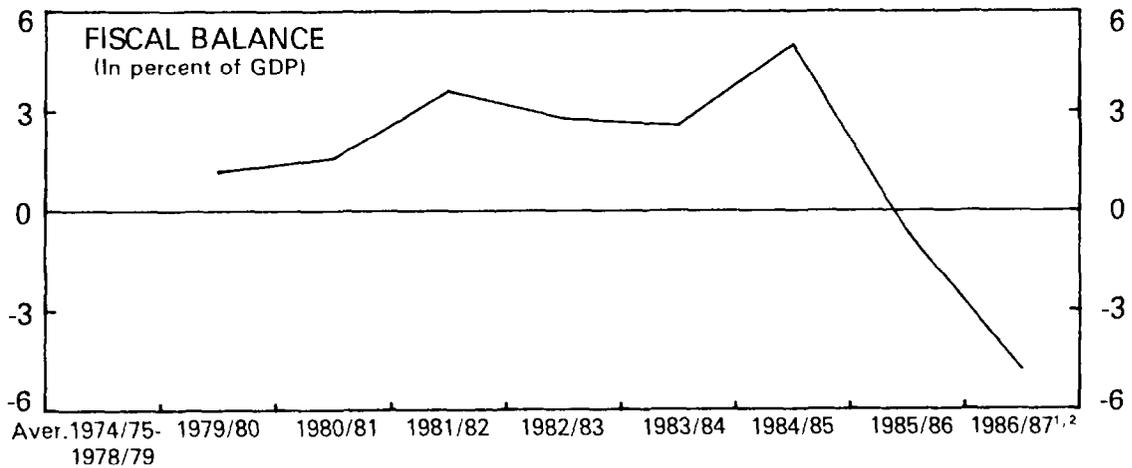
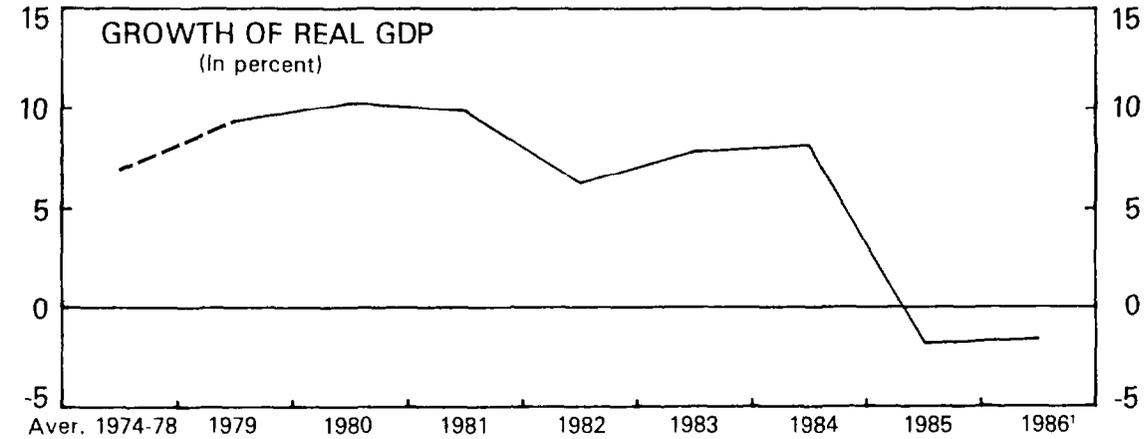
2/ Given the openness of the economy, movements in prices of the traded goods sector in Singapore move closely in line with movements in prices of trade goods abroad, corrected for exchange rate movements.

3/ For a description of the CPF and the Skills Development Fund, see the forthcoming report on recent economic developments. CPF contributions are fully vested and are designed to provide retirement benefits and cover medical costs. They may also be drawn on to finance home purchases and certain approved investments.

4/ The NWC is a tripartite body, with an equal number of representatives from business, labor, and the Government, which exerts an important influence on wage settlements.

CHART 1
SINGAPORE

ECONOMIC INDICATORS: GROWTH, THE FISCAL BALANCE AND
THE BALANCE ON EXTERNAL CURRENT ACCOUNT, 1974-86



Source: Data provided by the Singapore authorities; and staff estimates.

¹ Staff estimates.

² Exclusive of the accounting subsidy of the Housing Development Board, amounting to 1.4 percent of GDP.



Relative unit labor costs in manufacturing rose by just under 60 percent over this period, with some two thirds of this rise stemming from the appreciation of the Singapore dollar in nominal effective terms (Chart 2). The severe structural problems faced by key industries, such as petroleum refining, shipbuilding and repairing, and construction, 1/ which were caused by vastly altered global and regional demand and supply conditions, also contributed to a compression of profits. In the event, the rate of return on private capital is estimated to have declined from about 22 percent in 1980 to some 18 percent in 1984, while the rate of return in manufacturing declined from 33 percent to 17 percent. 2/

Despite the deterioration in Singapore's competitiveness and a compression in profitability, its economic performance in the early 1980s continued to be strong. Between 1979 and 1984, unemployment ranged from 2 1/2-3 1/2 percent of the labor force while real GDP growth averaged some 8 1/2 percent annually (Chart 3). The sectors contributing significantly to overall growth during this period included construction, financial and business services, and transport and communications, reflecting in part the Government's strategy to promote Singapore's role as a provider of advanced services. Output in manufacturing, which fluctuated noticeably, rose at an average annual rate of some 5 1/2 percent, significantly below the growth of real GDP.

Real public investment outlays grew at an average rate of about 21 percent, markedly increasing the share of the Government in total investment outlays (Chart 4). These outlays reflected, inter alia, the authorities' policy of providing a modern dwelling unit for each family by 1990, and the initiation of other public investment projects to strengthen the infrastructure. Coupled with increases in government consumption, the government share in GDP rose from 20 percent in 1980 to 26 1/2 percent in 1984. 3/ Private investment, especially in machinery and equipment, grew much less rapidly than public investment. Private consumption outlays rose at an average annual rate of 5 1/2 percent--significantly below that of real GDP--reflecting increases in personal savings, including compulsory contributions to the CPF.

During the period 1980-84, the budget surplus in relation to GDP fluctuated widely, between 1 1/2 percent in 1980/81 and 5 percent in 1984/85; the large surplus in the latter year was due primarily to unanticipated repayments of loans by the Housing and Development Board (HDB, a nonfinancial public enterprise), partly as a result of

1/ Optimistic projections of the growth of demand for residential and commercial properties, reflected in the building boom, proved unfounded.

2/ Care must be used in interpreting and comparing profitability figures since they are subject to a substantial margin of error.

3/ The government share in GDP is cited on a national accounts basis in the text.

unexpectedly large sales of homes in that year (Chart 5). 1/ The budgetary surpluses of the Government, as well as the operations of public entities such as the CPF, continued to withdraw domestic liquidity, giving rise to a shortage of funds that was offset by capital inflows. Capital mobility was enhanced by the rapid expansion in the activity of financial institutions, in particular, offshore banking units.

Notwithstanding the loss in competitiveness, the current account deficit continued to narrow in nominal terms, but especially in relation to a rapidly growing GDP, declining from 13 percent to 4 percent of GDP between 1980 and 1984. This narrowing was attributable in part to the continued growth of exports to the United States, particularly those of electronic goods and office equipment, and, from 1982, to the weakening in oil prices which helped to offset increases in the value of non-oil imports. 2/ The surplus on the services account peaked in 1982 at US\$5 3/4 billion, declining to US\$3 1/2 billion in 1984 (Chart 6). The rise in investment income and the strengthening in receipts from financial and business services were more than offset by the weakening in other subcomponents of the "other services net" category. 3/ The surplus on capital account continued to exceed the deficit on current account and to provide an important source of reserve and domestic liquidity growth.

2. Developments in 1985

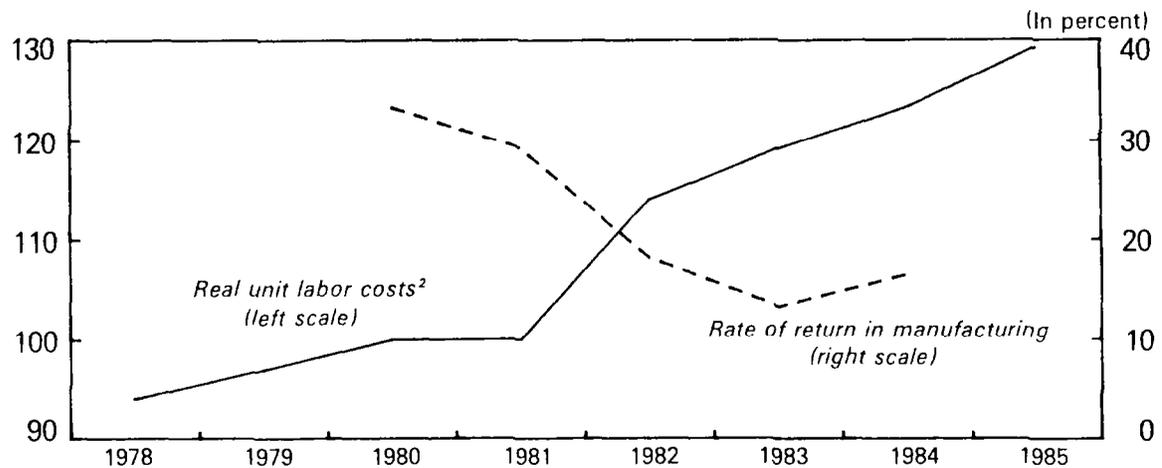
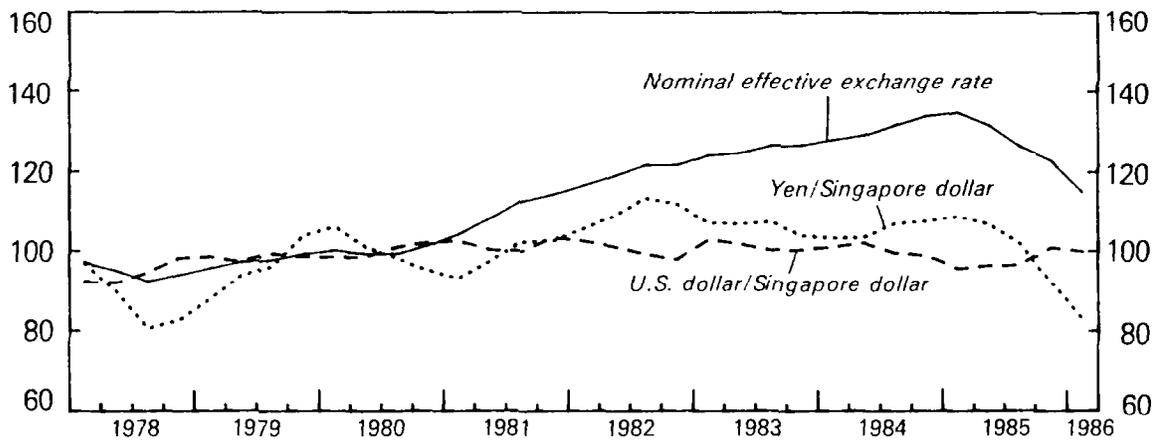
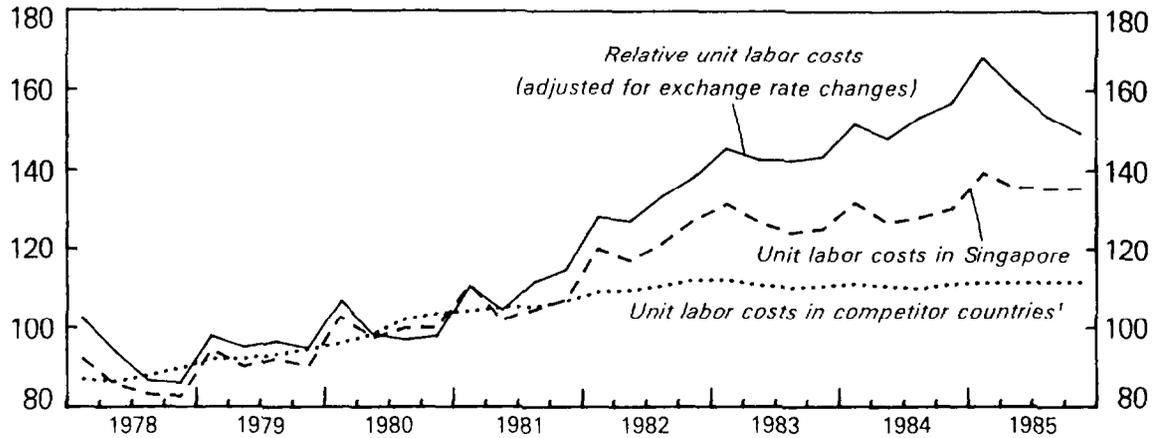
The economy experienced a sharp downturn in 1985 with real GDP declining by nearly 2 percent, although the slackening in activity had already become apparent in the second half of 1984. This drop in activity was attributable to unfavorable external and domestic factors. On the external side, the weakness of activity in the ASEAN region dampened demand for exports and tourism services. Key industries, such as petroleum refining and ship repairing, continued to be adversely affected by structural difficulties, as reflected in significant excess capacity with weak prospects for growth in demand, while an intensification of competition adversely affected the growth of exports of electronic goods.

1/ See the forthcoming report on recent economic developments.

2/ The trade balance weakened markedly in 1981 and 1982 reaching a deficit of almost US\$7 billion in the latter year, but returned to its 1980 value of some US\$4 billion by 1984.

3/ "Other services net" includes ship repairing, third party oil refining, income from financial and other services and certain important regional merchandise trade transactions. The aggregation of credits and debits from these important activities into one category, with no breakdown available, complicates analysis of current account developments and the medium-term projections.

CHART 2
SINGAPORE
MEASURES OF COMPETITIVENESS, 1978-85
(1980 = 100)



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

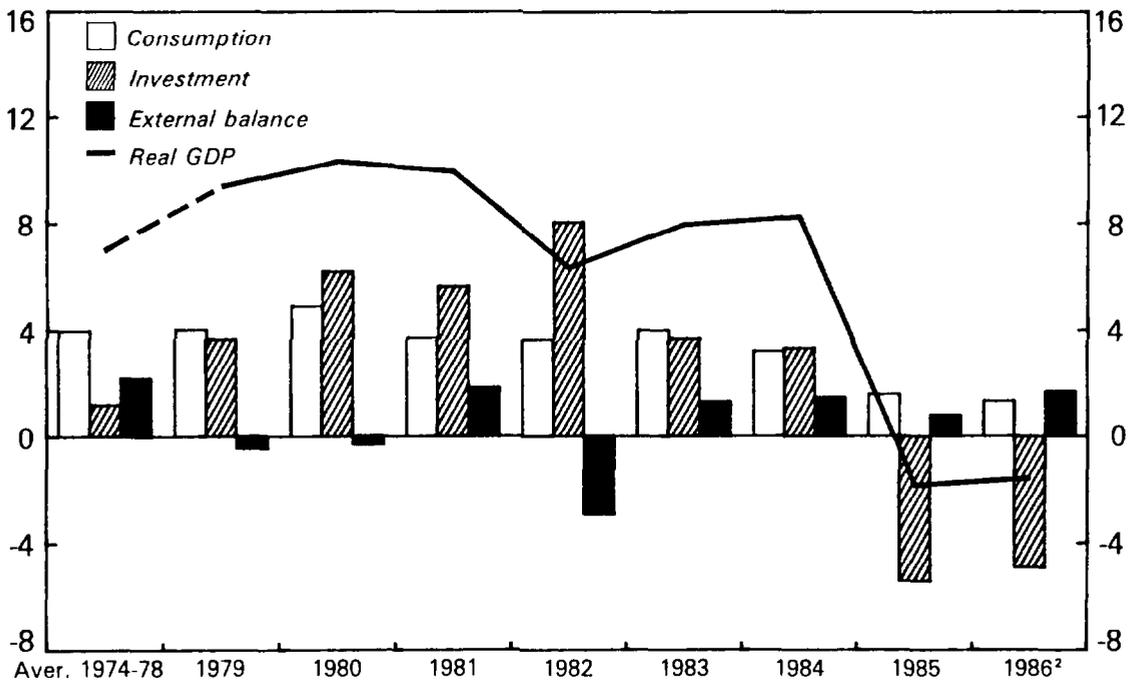
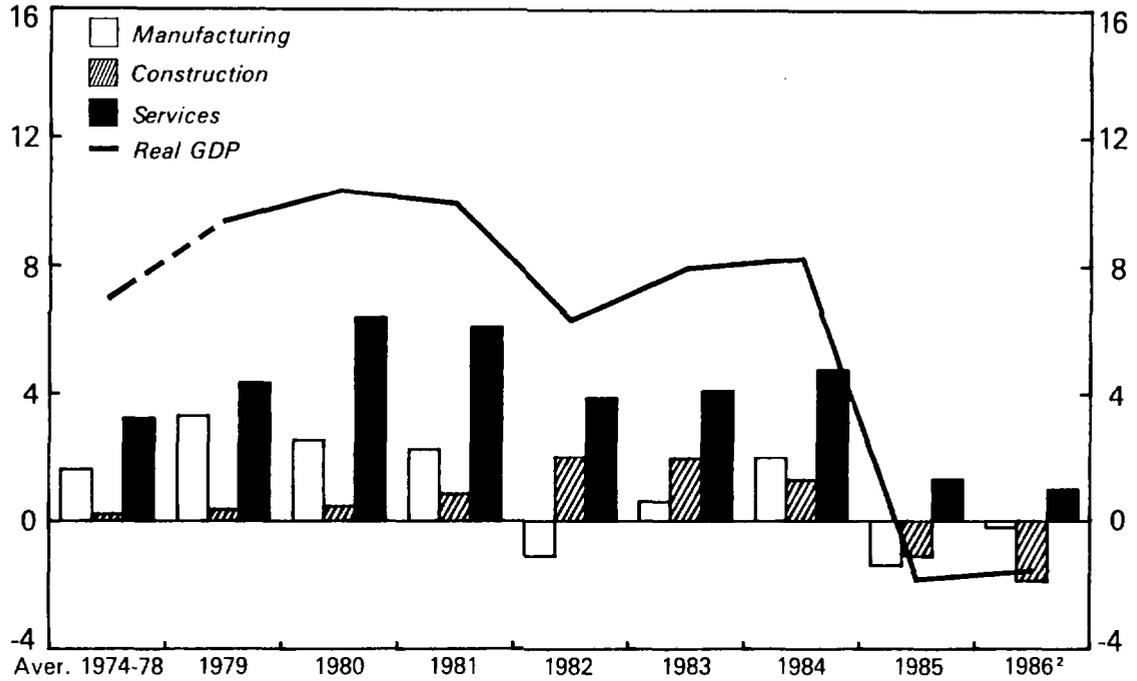
¹ Weights for 11 competitor countries are based on data for trade in manufactures and reflect competition in third markets. See Annex I of the forthcoming report on recent economic developments.

² Unit labor costs in Singapore deflated by non-oil domestic export prices.



CHART 3
SINGAPORE
CONTRIBUTIONS TO REAL GDP GROWTH, 1974-86¹

(In percent)



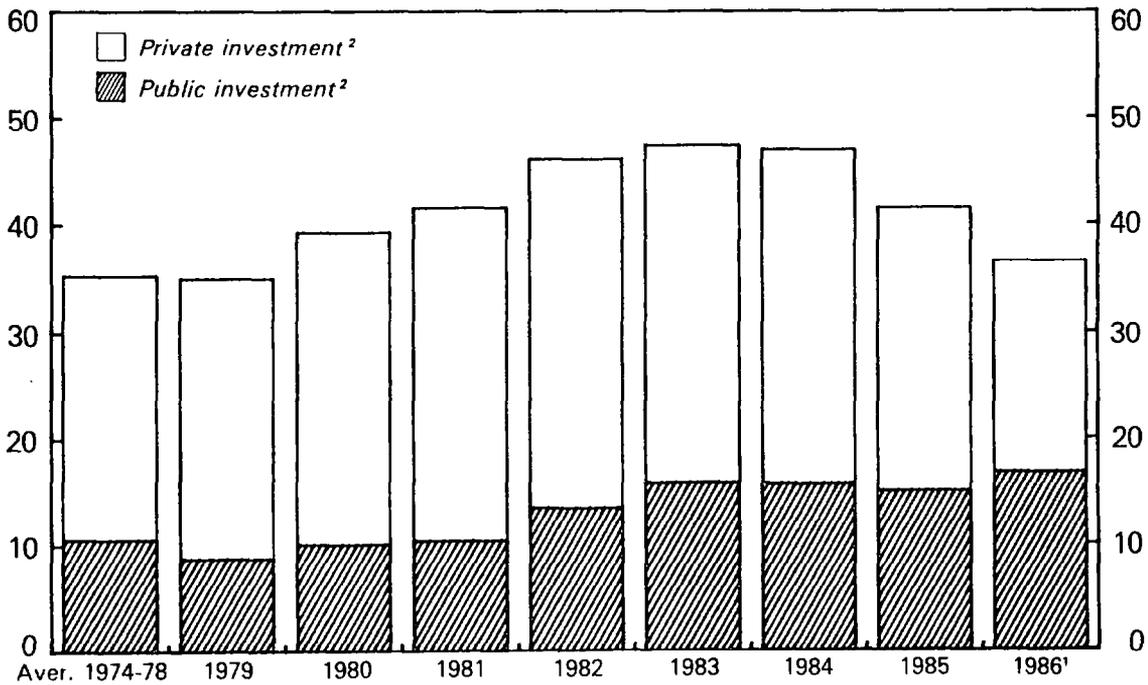
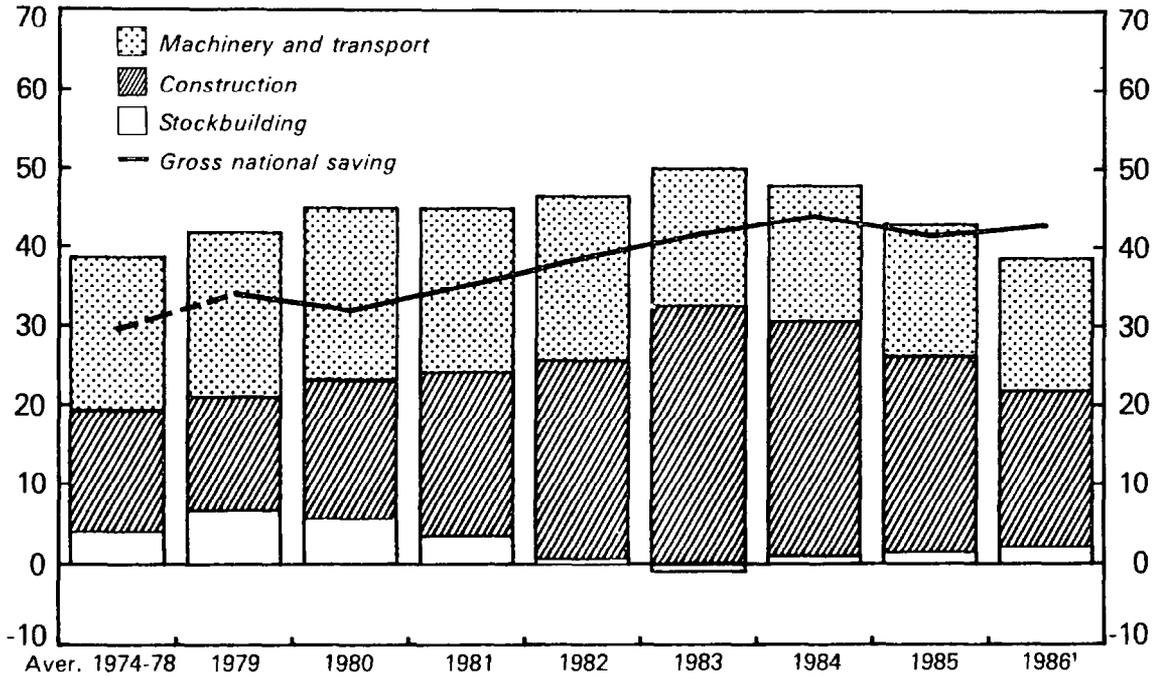
Sources: Data provided by the Singapore authorities; and staff estimates.

¹ Components do not sum to totals. In the top panel, not all sectors are included. In the bottom panel, change in stocks and the statistical discrepancy are excluded.

² Staff estimates.



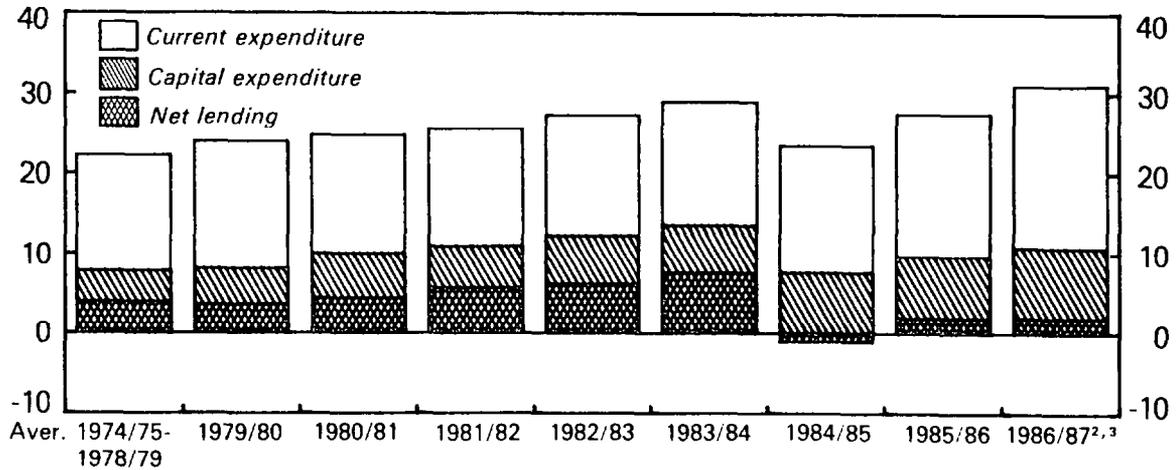
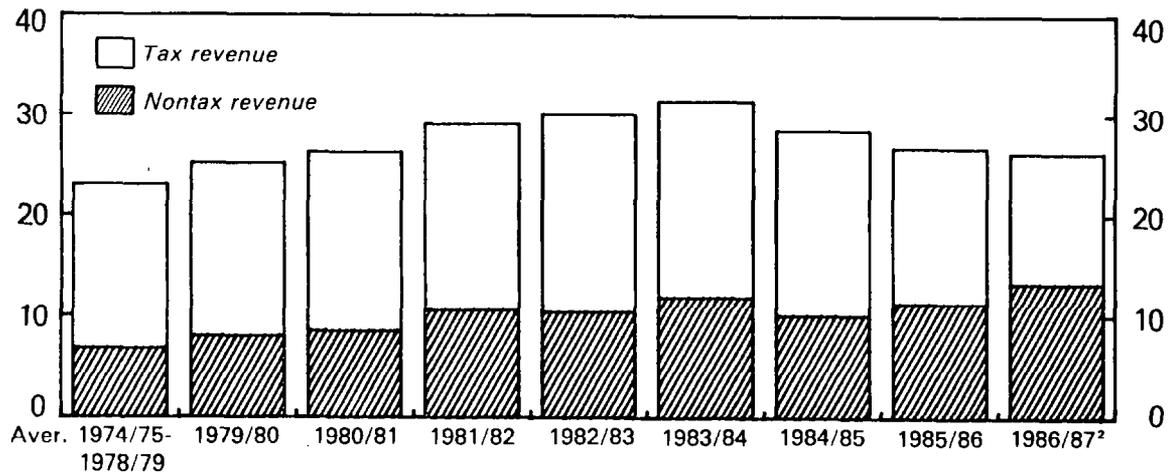
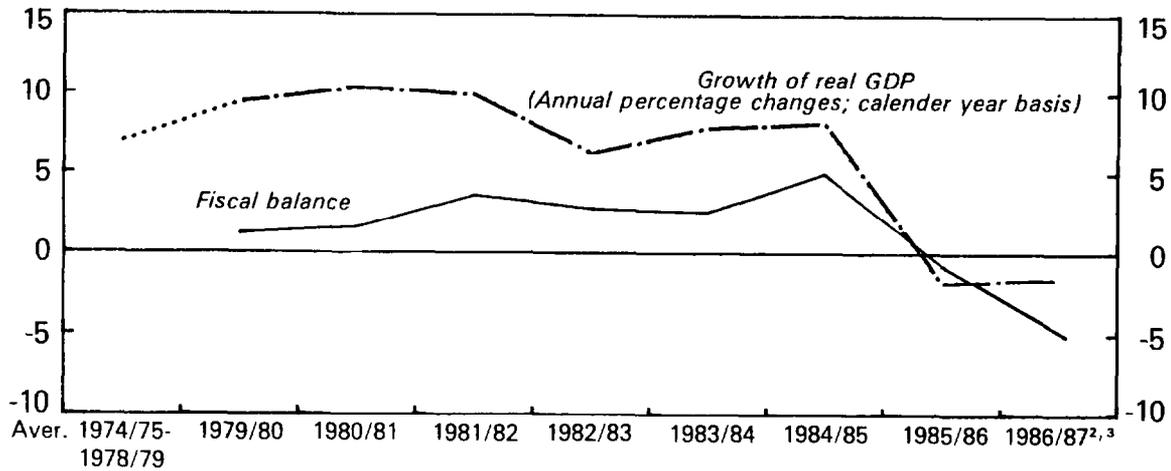
CHART 4
SINGAPORE
INVESTMENT AND SAVINGS, 1974-86
(In percent of nominal GDP)



Sources: Data provided by the Singapore authorities; and staff estimates.
¹ Staff estimates.
² Excluding stocks.



CHART 5
SINGAPORE
SELECTED INDICATORS OF GOVERNMENT FINANCE:
1974/75-1986/87¹



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

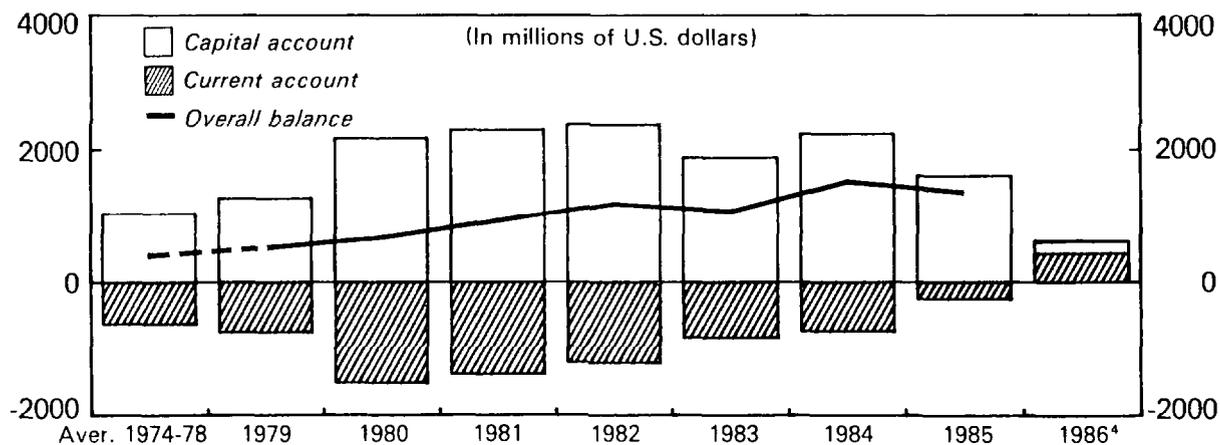
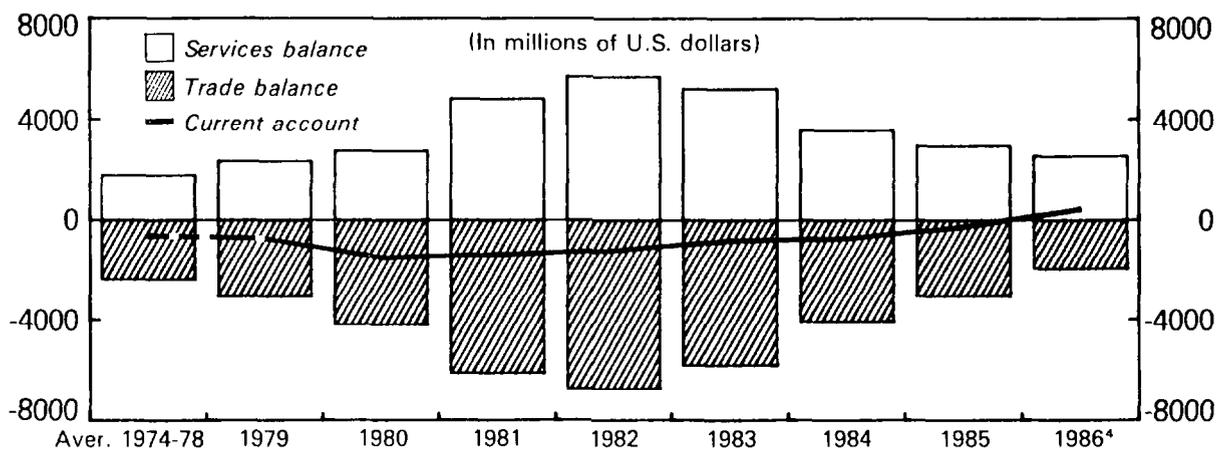
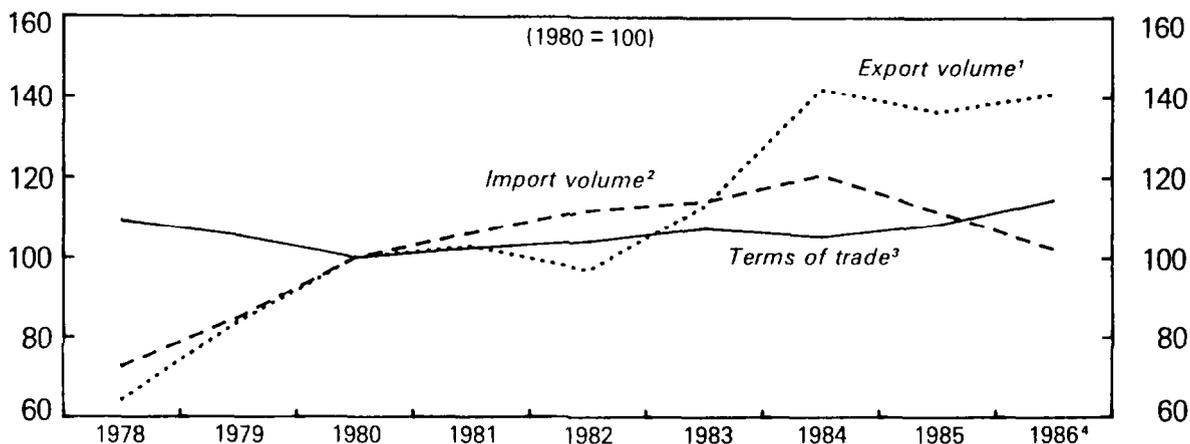
¹ Fiscal year runs from April 1 through March 31.

² Staff estimates.

³ Overall balance and expenditure exclude subsidies provided to the Housing Development Board, amounting to 1.4 percent of GDP.



CHART 6
SINGAPORE
EXTERNAL DEVELOPMENTS, 1974-86



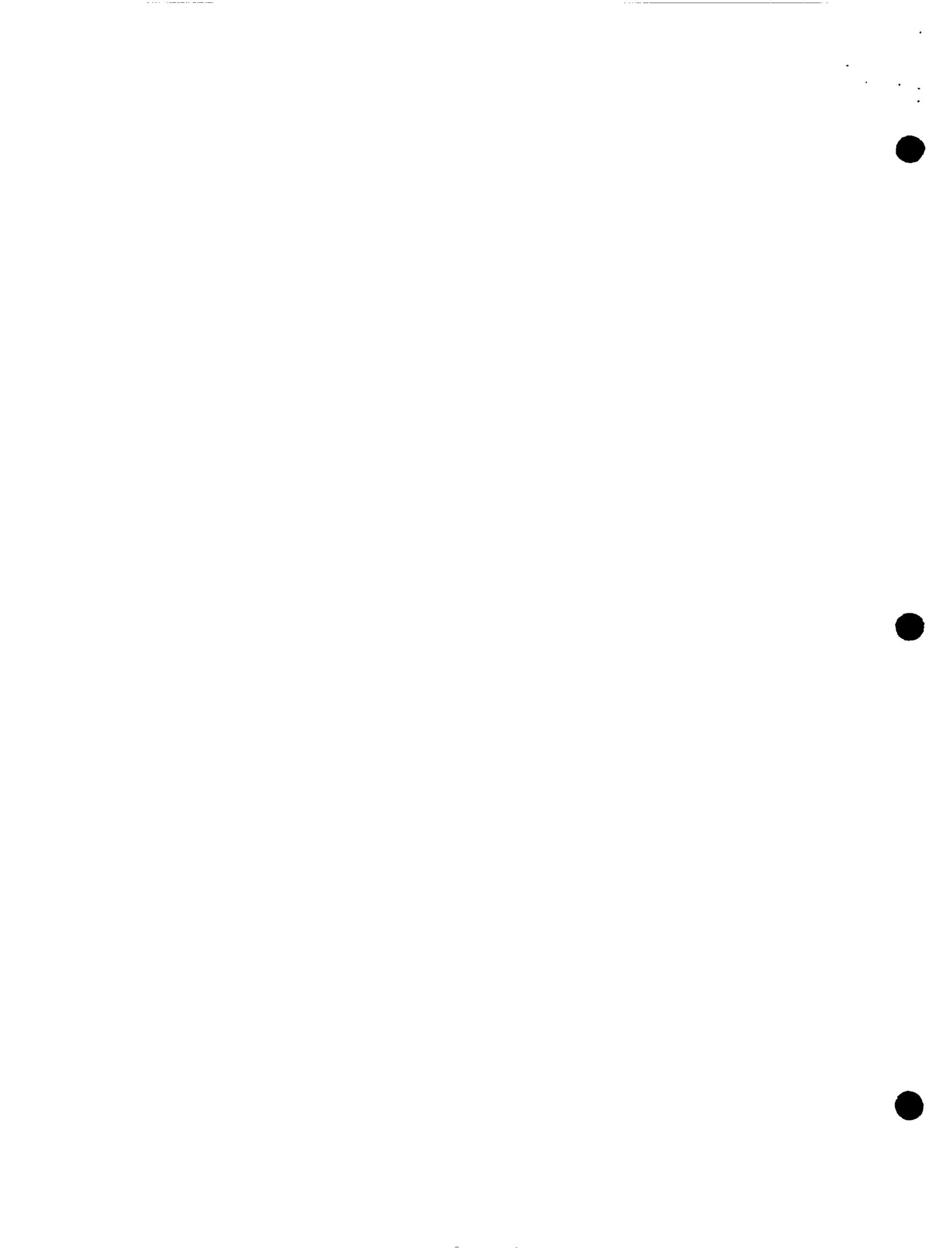
Sources: Data provided by the Singapore authorities; and staff estimates.

¹ Non oil domestic exports.

² Retained imports less oil refined for export.

³ Price of non oil domestic exports relative to price of retained imports less oil refined for export.

⁴ Staff estimates.



On the domestic side, total domestic demand in real terms fell by more than 3 percent as the 13 percent decline in gross fixed capital formation found only modest offset in the 2 1/2 percent rise in consumption. Private investment fell by 17 percent, reflecting the longer-term deterioration in profitability, accentuated by cyclical factors and the completion of office and hotel facilities for which there was little demand. Public investment declined by a more moderate 3 1/2 percent, with the completion of large-scale public housing projects and other projects to strengthen the infrastructure. With rising unemployment and a moderation in wage increases, private consumption outlays stagnated in real terms. The boost to total consumption expenditures came from an unprecedented growth of almost 20 percent in government outlays. 1/ In addition to increased expenditures on materials, this rise reflected a 12 percent increase in government employment, largely in the fields of health, education, and security.

The key sector contributing to the downturn in value added was construction. Construction activity, which was exceptionally buoyant in 1982-84 accounting for about one half of investment, fell by 13 percent in 1985. Manufacturing output declined by 7 percent. Only services and utilities enjoyed moderate growth. The dramatic fall in property prices, coupled with general weakness in the economy, brought to light unsound financial practices involving forward contracts for transactions in shares of the Pan-Electric Industries group. 2/ The inability of purchasers to honor such contracts and the consequent market disruptions led to the closure of the stock exchange for three days in early December and to some loss of confidence in Singapore's financial markets.

The labor market situation deteriorated markedly in 1985. The rate of unemployment increased from less than 3 percent, on average, in 1984 to over 6 percent in early 1986, despite the repatriation of a sizable number of foreign workers in connection with the fall in construction and manufacturing activity. 3/

1/ This figure differs markedly from the budget figure for current expenditures, which shows a rise of 8 percent in nominal terms for 1985/86. This stems, in part, from the fall in the deflator for government consumption; a difference in the time periods compared; and also the fact that the budget is on a cash basis. However, the staff was not fully able to reconcile the discrepancy between these figures.

2/ The Pan-Electric Industries group was a Singapore-based multinational corporation, with subsidiaries engaged in businesses ranging from salvage operations to manufacturing and real estate. A rescue package was put in place, and supervision tightened to prevent such a recurrence. See Section III.1.d. below and the forthcoming report on recent economic developments.

3/ Visas for foreign workers are linked to the duration of employment contracts. Foreign workers are particularly important in the construction, manufacturing, and domestic services sectors.

In response to the Government's call for restraint, the NWC recommended increases of 3-7 percent for the 1985 wage round; in the event, nominal wages increased on average by about 3 percent reflecting the softening of market conditions. 1/ This moderation, together with reductions in indirect labor costs and the nominal effective depreciation of the Singapore dollar from early 1985, resulted in a substantial decline in relative unit labor costs during the year. The rate of inflation, measured by changes in the consumer price index, fell by 2 percentage points to 1/2 percent, the lowest annual outturn in 10 years.

Financial policies eased somewhat. The budget moved into deficit in 1985/86 for the first time, reflecting not only cyclical factors but also specific tax relief measures taken at mid-year to reduce business costs. However, total domestic credit extended by the banking sector declined by about 9 percent, reflecting the weakness of private sector demand for funds coupled with a marked buildup in government deposits. 2/ Nominal interest rates declined further, although real interest rates on both deposits and loans remained substantially positive.

The external payments position strengthened in 1985. The trade deficit continued to narrow, both in relation to GDP and in absolute terms, mainly on account of depressed demand for imports. With the surplus in the invisibles account declining only slightly, the current account deficit declined considerably to US\$0.3 billion or about 1 1/2 percent of GDP. The capital account (including errors and omissions) continued to record a sizable surplus, although the commercial banking sector recorded net capital outflows reflecting the stagnant demand for loans in the domestic economy. With the overall balance of payments again in surplus, gross international reserves increased to nearly US\$13 billion, equivalent to over 7 months of retained imports.

Medium- and long-term external public debt and the debt service ratio remained negligible. Little information is available on external debt of the nonmonetary private sector.

III. Report on the Discussions

The discussions followed closely on the release of the report of the Economic Committee and the approval of the budget for 1986/87,

1/ Although wages increased by only 3 percent, average earnings per employee increased by 6 1/2 percent, partly owing to the repatriation of lower-paid foreign workers.

2/ This buildup in government deposits reflected CPF and Post Office Savings Bank purchases of government securities as well as increases in the value of government holdings of international reserves.

shaped in part by the Committee's findings. ^{1/} This report played an important role in the discussions. In arriving at its recommendations, the Committee analyzed the determinants of the current unprecedented fall in activity, and developed an economic strategy for the coming decade. The Committee concluded that, with the maturing of the economy and less buoyant external demand, Singapore's potential rate of growth had been reduced significantly. Further, in its view, a number of important policy adaptations were needed if the objectives of making Singapore a complete business center and of achieving real growth of 4-6 percent per annum were to be realized. Major recommendations included an integrated approach to reducing business costs: through wage restraint and enhanced labor productivity growth; through a reduction in the cost of capital and other business costs; and through increased efficiency in the business environment. The latter was to be furthered by enhancing the role of the private sector. Initial measures toward this end could include improved dissemination of information about marketing opportunities for both goods and services abroad; direct financial support for small ventures; increased access to domestic savings for the private sector; and the sale of shares in public sector enterprises to private investors.

Many of the proposals of the Committee have been received sympathetically by the authorities and have been acted on. Others are under consideration.

1. Industrial strategy

The authorities felt that their industrial strategy would serve to enhance investment incentives for both domestic and foreign investors, and to diversify Singapore's exports by destination and product.

a. Containment of labor costs

A policy of severe wage restraint for the coming two years had been proposed by the authorities to restore competitiveness, and had generally been endorsed. Although an outright wage freeze had been rejected as too rigid, firms were being strongly discouraged from increasing their total wage bill unless they were experiencing a rapid rise in their profitability. ^{2/} They also explained that a cut in firms' labor costs of some 12 percent would take place on April 1, 1986, as a

^{1/} This Committee was established by the Government in April 1985 under the chairmanship of Brigadier General Lee Hsien Loong, now Acting Minister for Trade and Industry, to establish new directions for the economy. Its recommendations are presented in The Singapore Economy: New Directions, Ministry of Trade and Industry, Republic of Singapore, February 1986.

^{2/} Wage bills for purposes of this calculation would omit employers' contributions to the CPF and the Skills Development Fund and would also be corrected for changes in employment.

consequence of the reduction in the contribution rate of employers to the CPF from 25 percent of wages to 10 percent (though this cut affected remuneration, it did not directly affect take-home pay). Although the cut was scheduled to last for two years, the authorities indicated that the contribution rate would only be increased when conditions permitted. Labor costs were also being constrained through a further one percentage point reduction in the contribution to the Skills Development Fund.

Severe wage restraint was seen by the authorities as necessary to break firmly established expectations of large and regular wage increases. They explained, however, that greater diversity in wage settlements would be sought over the medium term, so that a better matching of wage increases and productivity gains could be established. Thus, wage negotiations were to be conducted at the enterprise level. The role of merit would increase in importance relative to seniority, while it was expected that the remuneration system would increasingly incorporate aspects of profit sharing.

Labor productivity was to be enhanced by training programs offered by the National Productivity Council. In addition, a larger tax deduction was provided, effective for assessment year 1986, to encourage individuals to undertake additional professional or technical training. 1/

b. Containment of capital costs

The authorities noted measures in a number of areas that had been initiated to reduce the cost of capital to business. Interest rates were high in real terms, and the banking community had been encouraged to use what scope was available to reduce lending rates. A reduction in intermediation costs as a result of increased banking efficiency had made possible some narrowing of the spread between loan and deposit rates. However, as noted below, external developments exerted a dominant influence on movements in interest rate levels in Singapore.

In the 1986/87 budget the authorities announced a reduction in the rate of tax on corporate profits and the maximum rate of tax on individual income from 40 percent to 33 percent. 2/ In addition, the temporary income tax rebate of 10 percent, which was introduced in 1985, was increased to 25 percent. The authorities felt that these tax measures were sufficient at present, particularly when consideration was

1/ The assessment year is the year in which tax liabilities are assessed and fall due. Thus, taxes on income earned in calendar year 1985 would be assessed and paid in 1986.

2/ The corporate tax rate at 33 percent still remains high by comparison with most other Asian NICs. The Economic Committee's recommendation was a maximum rate of 30 percent.

given to the accelerated depreciation allowance introduced from assessment year 1985, permitting a total write-off for all investment in plant and equipment in three years. A further reduction in the corporate tax rate might be envisaged in future.

c. Containment of other business costs

In the 1985/86 budget and in mid-1985, a number of emergency fiscal measures, in addition to those already identified, were introduced to reduce business costs. These included a reduction in costs of utilities through the elimination of tax on charges, 1/ and more importantly, a property tax rebate of 30 percent. The authorities recognized that the property tax burden was high, at 23 percent. 2/ The raising of the rebate to 50 percent in the 1986/87 budget and the adjustment of the valuation method to lower the value of property to be used as the base for assessing the property tax liability of hotels were both seen as temporary measures to reduce costs until the property market situation could be reviewed in depth.

d. Business promotion measures

In addition to measures to reduce the costs of existing businesses, the authorities indicated their intention to support innovation and encourage the development of the private sector. Government marketing boards would help in identifying niches for Singapore products, and investment in production facilities would be encouraged--for example, by the provision of financial support to small enterprises for approved projects, both directly and through advantageous investment allowances and by the establishment of an unlisted securities market (USM). Some liberalization of the use of CPF contributions for investments, other than in residential housing, had already been introduced, but the authorities noted the need to proceed cautiously in this regard because of the need to safeguard the value of such contributions. In line with efficiency objectives, the Singaporean authorities acknowledged a preference, in principle, for across-the-board incentives rather than those of a more discretionary nature, and the possibilities of adopting a system of neutral incentives would be kept under review as noted below.

At present, however, taxes levied on repatriated income from certain types of service exports were being examined to assure that Singapore's tax system did not place these exports at a competitive disadvantage. At the same time, foreign direct investment in the services sector was being actively encouraged, though the domestic services sector was reluctant to accept such investment because of the

1/ The tax on telephone services was suspended in the 1985/86 budget. For further details, see the forthcoming report on recent economic developments.

2/ The 23 percent tax rate is applied in principle to the rental value of such property on an economy wide basis.

competition it would give rise to in the home market. The authorities favored such competition since it was expected to strengthen efficiency.

A sound and efficient regulatory framework was seen to be essential to good economic performance. Thus, on the one hand, the Government was reviewing procedures and regulations with a view to eliminating those that were not socially necessary and were detrimental to efficiency. At the same time, the weakening in activity and the sharp fall in property prices had brought to light unsound financial practices that had been made possible by insufficient supervision. These practices were reflected in the bankruptcy of the Pan-Electric Industries group and the temporary closure of the Stock Exchange of Singapore. The authorities did not think that the Pan-Electric episode had permanently impaired Singapore's role as a financial center, and felt that press statements had been exaggerated. However, to assure better supervision of activities in the securities markets, the Securities Industry Bill of 1986 has recently been passed by Parliament, giving the MAS wide-ranging supervisory powers along the lines of those now exercised by the U.S. Securities and Exchange Commission, and was awaiting Presidential approval. ^{1/} The Futures Trading Industries Act, pertaining to the supervision of the Singapore International Monetary Exchange, was also awaiting final approval. The authorities expressed optimism about the growth of the financial services sector in Singapore.

2. Fiscal policy

The authorities noted that the 1985/86 budget had not contained measures of an anticyclical nature, if only because the severity of the recession had not been recognized at the time the budget was framed. The focus of the budget had been primarily on encouraging the development of economic and social infrastructure and on upgrading the educational and skills levels of the population. Additional selective tax incentives were offered to encourage the growth of high value-added services and tourism and to reduce specific business costs. As noted, a package of tax concessions was introduced in mid-1985 as the weakening of activity and of firms' financial positions became increasingly apparent; the package was estimated to have resulted in a reduction in revenue of almost S\$500 million (1 1/4 percent of GDP). At the same time, efforts were made to accelerate certain development expenditures.

In the event, current expenditure fell short of the budgeted amount by some 12 percent in 1985/86 in part as a result of the lower-than-budgeted wage increase recommended by the NWC in mid-1985 in anticipation of its present policy of severe wage restraint. Nonetheless, current expenditure rose by 8 percent above the 1984/85 level owing to increased purchase of materials and higher employment. The traditional

^{1/} For a description of developments in financial markets, see the forthcoming report on recent economic developments.

shortfall in direct development expenditure amounted to some 20 percent, the average shortfall realized in the three years to 1984/85. Tax revenue fell 18 percent below the budget estimate--in contrast to an overshooting of 12 percent, on average, in the three years to 1984/85--and declined vis-a-vis the preceding year for the first time since independence. This reflected, as noted, not only tax concessions but also cyclical developments.

Both nontax revenue and net lending rose markedly in 1985/86 as a result of changes in accounting procedures affecting transactions with the HDB. Corrected for changes in procedures, nontax revenue increased by only 7 percent over the level attained in 1984/85.

The budget moved into deficit for the first time, amounting to 0.7 percent of GDP, against a surplus of 5 percent in 1984/85. The authorities explained that the deficit was financed by a drawing down of accumulated balances with the MAS, which would otherwise have been invested abroad.

In contrast to the 1985/86 budget, the budget for 1986/87 is designed to boost domestic activity through the additional tax reductions described above and an acceleration and expansion of development projects. The tax changes introduced in the budget are estimated to reduce tax revenue by S\$450 million (over 1 percent of GDP) below the level that would otherwise have prevailed. Current expenditure is budgeted to rise by about one fifth over the estimated 1985/86 outturn, notwithstanding the Government's proposal for severe wage restraint, largely as a result of higher interest payments on securities sold to public thrift institutions (including the Post Office Savings Bank (POSB) and the CPF), higher pension costs, and the inclusion of a large government subsidy to the HDB. 1/ Thus, the budget envisages a deficit of more than 8 percent of GDP, though staff estimates suggest an outturn of about 6 percent, 2/ largely on account of a shortfall in expenditure in line with past experience.

The authorities indicated that the budget deficit would be financed from drawings on accumulated reserves and borrowings from the CPF that would have otherwise been placed abroad. Thus, in their view, there would again be no crowding out of the private sector, since there would be no pressure on interest rates or competition for scarce resources.

1/ Formerly the subsidy provided home owners for the purchase of HDB residential units was not explicitly taken into account in the budget. For an explanation, see the forthcoming report on recent economic developments.

2/ This figure includes a subsidy to the HDB of 1.4 percent of GDP, which reflects a change in accounting procedures. Adjusted for comparability with earlier years, the estimated deficit would amount to nearly 5 percent of GDP.

The staff asked the authorities whether the channeling of domestic savings, in large part into financial investment abroad and into residential housing, had not unduly biased domestic investment toward construction and contributed to Singapore's very marked dependence on imported capital in the industrial sector. The share of domestic exports accounted for by multinational corporations (MNCs), which was estimated at 70 percent, was seen to illustrate this dependence. The authorities emphasized that the maintenance of a high level of domestic savings and the attainment of the announced housing objectives continued to be accorded high priority; however, it was also their intention to encourage domestic private sector investment in productive activities.

The ratio of central government expenditure (excluding net lending) to GDP had reached 28 percent of GDP in 1985. ^{1/} However, the authorities noted that total expenditure consisted, in large part, of investment outlays for housing and infrastructure, which were essential to the efficient functioning of the economy. They explained that, with the completion of projects, such outlays would automatically decline in the coming years. They also noted the Government's intention to privatize certain public sector corporations, citing, for example, the flotation of shares for Singapore International Airlines. They did not expect to move rapidly in this area in the near term, however, since they were not in need of funds and did not wish to compete for capital with the private sector.

The staff noted the dominant share of direct taxes in total tax revenue and asked the authorities whether a greater role might not be envisaged for indirect taxes that could be rebated for goods that were exported. Such a shift in the structure of tax revenues would strengthen Singapore's external competitiveness. The staff noted, however, that should such a change be implemented, care would have to be taken lest rebates on tourist expenditures prove unduly cumbersome and Singapore's role as a regional retailing center be impaired. The authorities responded that a consumption tax, which might make possible a further lowering of income taxes, was under review. However, over the medium term, they stressed the need to maintain revenue at a sufficiently high level so as to avoid the emergence of a structural deficit.

The authorities also indicated that a more neutral system of tax incentives would, in principle, be preferable from the perspective of efficiency. However, it was necessary to offer incentives competitive with those offered by other countries in order to attract certain types of investment. The staff commented on the preferential tax treatment accorded earnings on POSB accounts and funds held with the CPF, questioning whether such advantageous treatment did not adversely affect prospects for the development of a securities market. The authorities

^{1/} The text figure is on a national accounts basis. The share is estimated at 36 percent for 1985/86 based on budget figures, including net lending.

responded that they were aware of this potential conflict. Thus a two tier deposit rate system favoring small savers had been introduced at the POSB. However, the question of the tax free status of POSB deposits would be kept under review.

3. Exchange rate and monetary policy

The authorities described their exchange rate policy as one of monitoring the movement of the rate of the Singapore dollar against an undisclosed basket of currencies, with direct intervention and foreign exchange swaps designed to keep the rate within a target band; the band was modified, taking into account changing economic conditions and objectives. These transactions were supported, when necessary, by money market operations to assure that interest rate developments were conducive to exchange rate objectives. Thus, the priority given to the exchange rate limited the scope for an active monetary policy in Singapore and precluded the targeting of monetary aggregates.

a. Exchange rate policy

The authorities explained that the major objective of exchange rate policy remained the promotion of growth in a noninflationary environment, and that no change in the methodology used to calculate the effective exchange rate index had taken place. Changes in the nominal rate were not regarded as effective instruments for bringing about enduring adjustments in competitiveness in a small open economy, such as that of Singapore. It was the view of the authorities that movements in competitiveness should be guided primarily by movements in real domestic factor costs, rather than through exchange rate changes that would tend to lead to higher domestic rates of inflation. Stability of the nominal rate was desirable also for promoting confidence in the domestic currency.

Since the last consultation in early 1985, the nominal rate had remained fairly constant vis-a-vis the U.S. dollar, which, the authorities explained, had a large weight in Singapore's currency basket. However, as the discussion of the deterioration in Singapore's external competitiveness gained momentum in mid-1985, expectations of a discrete depreciation intensified. Decisive action by the MAS in September, which led to high interbank rates, resulted in a loss for speculators and a quieting of pressures in the foreign exchange market. Subsequently, the exchange rate stabilized against the U.S. dollar.

Staff estimates indicated a depreciation of the Singapore dollar, in nominal effective terms, by some 18 percent in the 15 months to March 1986. Taking into account these exchange rate developments and the recent and prospective development in labor costs, staff calculations suggested that competitiveness, as measured by relative unit labor costs, was likely to be restored to its average 1981 level by 1988. The authorities were asked to comment on the appropriateness of developments

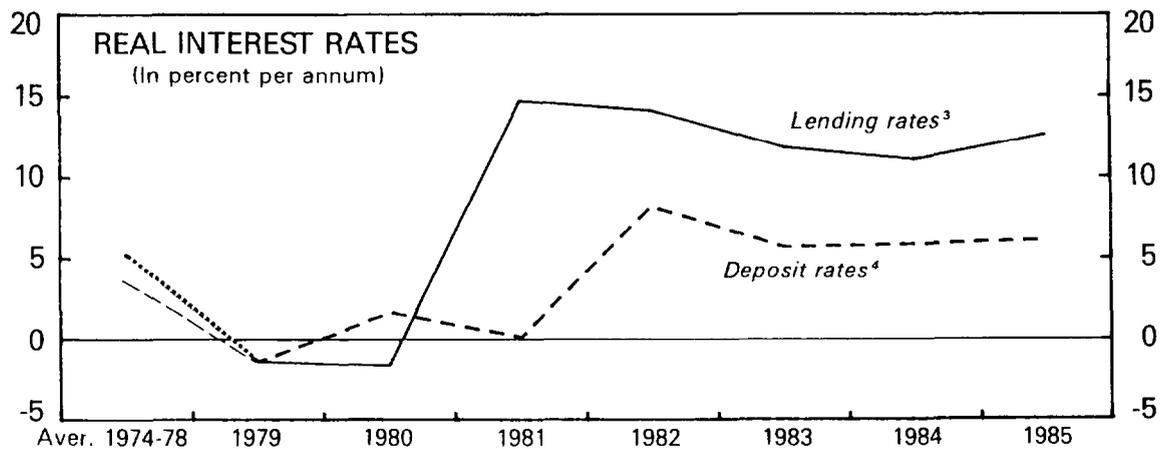
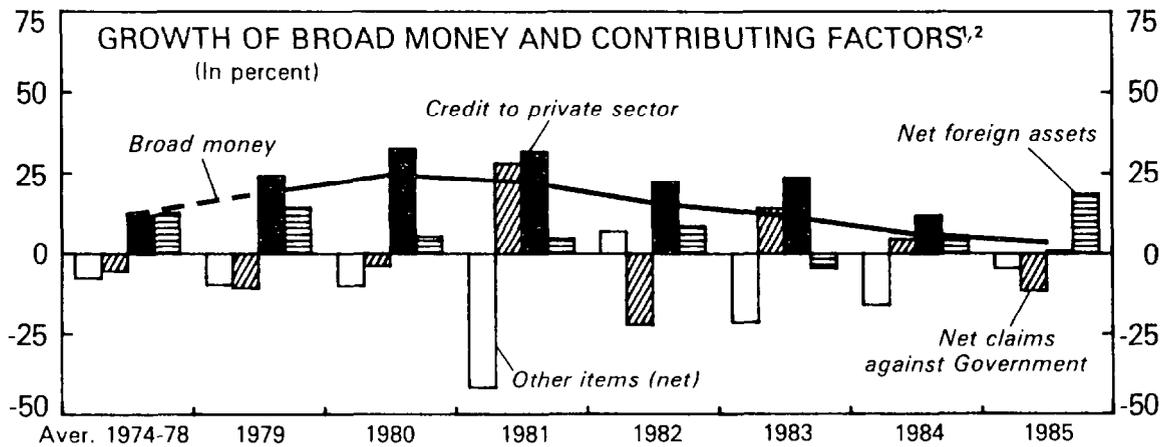
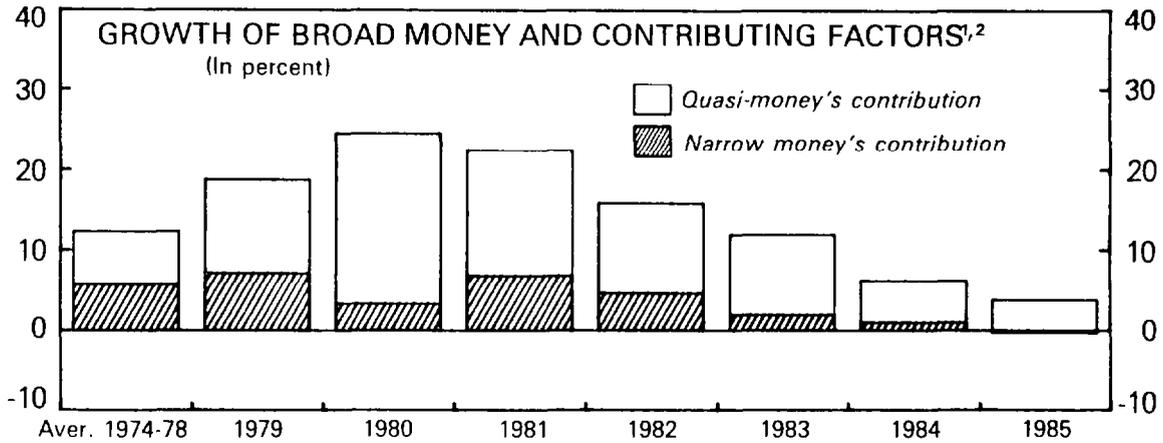
in Singapore's competitiveness, looking also at other determinants of business costs. The authorities noted that one could compare the current situation in Singapore with the situation prevailing in earlier years when competitiveness was thought to be satisfactory--say in 1982--or contrast the current situation with that prevailing presently in other newly industrialized countries (NICs). The latter was their preferred approach. They estimated that business costs in Singapore, before the implementation of adjustment measures, had exceeded those in competitor countries by about one third, but that these measures would reduce the differential to an acceptable "premium," consistent with Singapore's good business environment. These calculations were necessarily very imprecise, and views differed as to the permissible premium. It was agreed that only a revival in investment and exports would provide conclusive support for this tentative assessment.

b. Monetary policy

As noted, the authorities felt that the scope for an independent monetary policy was very limited, given the priority assigned to exchange rate objectives and the openness of the Singapore economy. Thus interest rate movements in Singapore in all but the very short term tended to be dominated by movements abroad. In recognition of the high level of real interest rates and the sluggishness in the economy, the authorities had urged banks to use the scope available for reducing lending rates. Some modest success had been achieved in reducing the spread between lending and deposit rates. However, in their view, a further significant compression was unlikely due to the increase in the risk premium associated with the weakening in firms' financial positions and in bank profits, though some scope for a reduction in nominal rates might emerge with a further decline in inflationary pressures.

The growth of domestic liquidity in Singapore continued to be highly dependent on capital inflows to offset the contractionary impact of the operations of public entities, including the CPF and the POSB (Chart 7). The MAS was actively involved in recycling certain funds accruing to the government--which primarily arose from the sales of government securities to thrift institutions--through the placement of such funds in the interbank market. The recycling also took place through intervention on the spot market and the provision of foreign exchange swaps. However, the MAS did not actively engage in rediscounting, or guide liquidity developments through the conduct of open market operations. Reliance on capital inflows to the banking sector had increased in importance in recent years as such inflows to the nonbank sector had diminished. At present, the level of gross external bank liabilities, which had risen steadily in recent years, was not a source of concern, though the level of such liabilities was kept under review. The authorities agreed, however, that in the coming years the operations of public entities would be much less contractionary, and that, with the external current account moving into surplus, reliance on

CHART 7
SINGAPORE
SELECTED MONETARY INDICATORS, 1974-85



Sources: IMF Data Fund; and staff estimates.

¹ The growth of broad money is measured as the percentage change during the year.

² Contributions are measured changes in percent of broad money outstanding at the end of the previous year.

³ Prime lending rate at the beginning of the year minus percentage change in wholesale price index during the year.

⁴ Twelve-month deposit rate at the beginning of the year minus percentage change in consumer price index during the year.



capital inflows would be greatly diminished. Indeed, a review of monetary instruments would seem appropriate to assure their adequacy for the creation and management of liquidity in changing circumstances. 1/

4. Trade policy and external assistance

The authorities noted that Singapore's economic achievements would not have been possible in a restrictive trade environment. Indeed, their economic strategy had been premised on identifying fields of comparative advantage and on exploiting external markets under a system of free trade. Singapore's domestic market was too small to afford economies of scale and, other than its strategic location, the country had few natural resources. A strong economic infrastructure, characterized by efficient transportation and communications systems, had been developed to support activity. In recent years, however, investment in Singapore by MNCs was being adversely affected by growing protectionist tendencies abroad. MNCs were increasingly directing their investment to protected markets.

The Generalized System of Preferences (GSP) had supported growth of new industries and some 20 percent of Singapore's non-oil domestic exports were under the GSP. Any withdrawal of benefits would have serious consequences if it applied to Singapore's exports but not those of other NICs. More generally, a withdrawal of GSP accommodations for items whose production had reached maturity was not a source of concern; for those at an earlier stage of development, this withdrawal could compromise export prospects. In addition to tariff rates, the Singaporean authorities noted the adverse consequences--and arbitrariness--of anti-dumping actions. Health and safety standards could be used as protective devices, but generally they posed no problems because of the quality control standards adopted by the authorities themselves. Singapore's policy was not to restrict imports. In many instances there were no possibilities of import substitution, and imports were seen as a stimulus to domestic efficiency.

Singapore, as a member of Association of South East Asian Nations (ASEAN), had important links with neighboring countries, and the group project to produce Hepatitis B vaccine in Singapore was now operational. Within the Asian region, Singapore had provided technical assistance to neighboring governments, when required, and investments in the hotel sector and in manufacturing in the Special Economic Zones in the People's Republic of China were of particular interest at present. In

1/ Subsequent to the discussions, the authorities announced their intention of actively developing a government securities market, partly to facilitate the financing of the budget deficits foreseen for the next few years; to encourage the growth of financial markets; and eventually to provide a basis for the conduct of open market operations.

connection with the strengthening of the current account, the authorities saw some scope for an increase in outflows of foreign direct investment from Singapore to other Asian countries.

5. Prospects for 1986 and the medium term

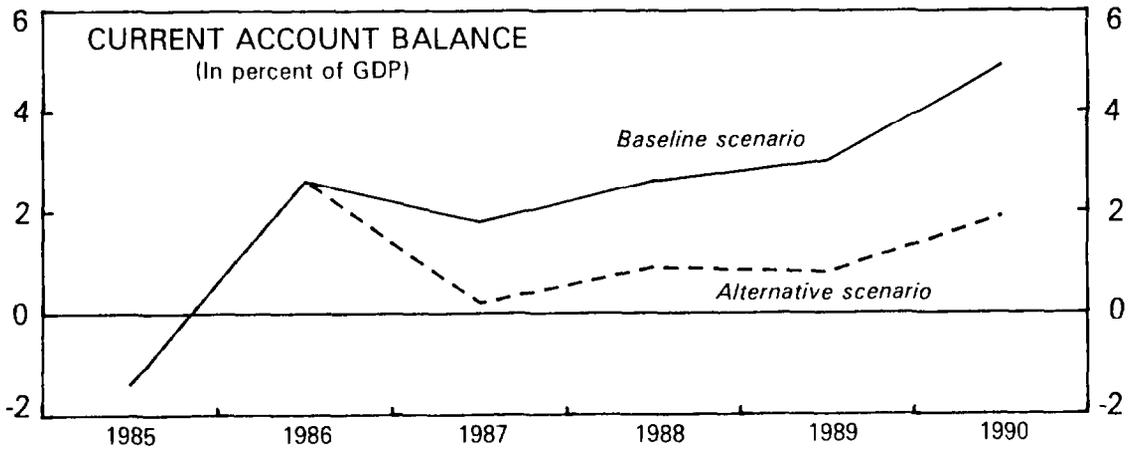
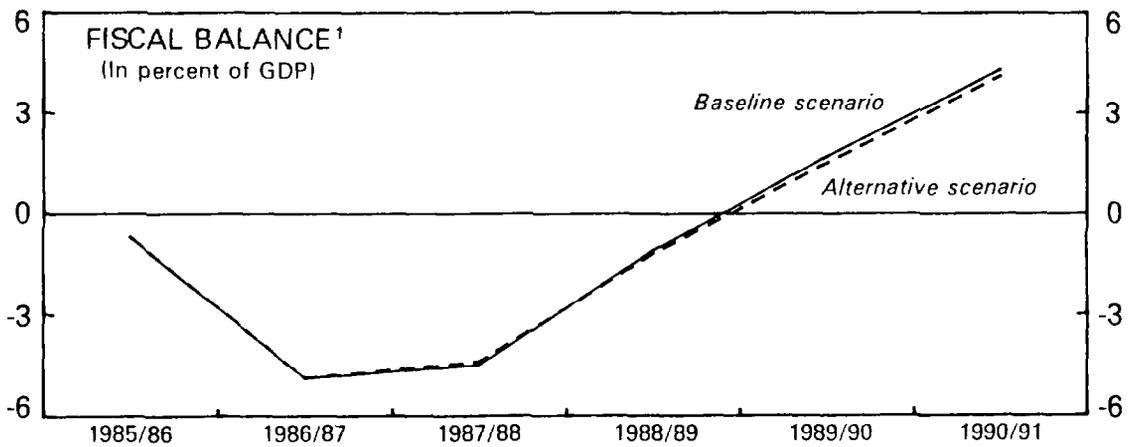
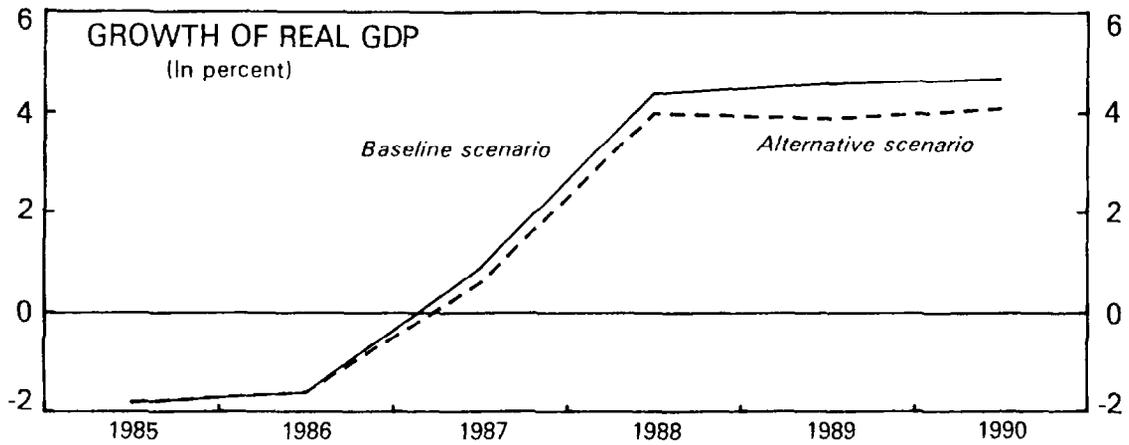
At the time of the discussions in Singapore, the authorities foresaw stagnation or very moderate growth for 1986. Construction was expected to continue to decline as major projects were completed. Some offset was expected, however, consequent on the measures taken: to reduce business costs; to bring forward expenditures; and to assure the business community of adequate profitability. Manufacturing output was expected to respond favorably to the increase in Singapore's external competitiveness. Given the deepening of the recession in 1985 and the lagged response to the strengthening in profitability, the staff questioned whether such a projection might not be unduly optimistic. Following the outturn for the first quarter in 1986, the authorities now foresee a second year of declining real GDP.

The current account is expected to register its first surplus in 1986. A further fall in the value of imports is projected, if only because of the decline in oil prices and the continued weakness of domestic demand, especially construction. Non-oil domestic exports are expected to grow moderately, supported by a more buoyant environment in industrial countries, and increasingly, by the effects of the gain in competitiveness.

Looking to the medium term, staff projections assume that there will be a slight further strengthening in Singapore's competitive position, and with the revival of investment, growth will reach the 4-5 percent range by 1988-89 (Chart 8 and Table 1). The projections foresee less buoyant growth of government revenue in the coming years because of the lowering of the maximum income tax rate, a sustained reduction in the property tax burden, and no revenue offset through increases in other direct or indirect taxes. Thus, the budget deficit is projected by the staff to narrow gradually, as expenditure growth is constrained by the completion of large infrastructure and housing projects and a conservative wage and employment policy. Total government expenditure, including net lending, is projected to decline by almost 5 percentage points of GDP in the three years to 1989/90, with the budget again moving into surplus in that year.

Staff projections for the current account indicate a trade deficit in the range of US\$2 billion until 1990 as buoyant export growth from 1988 is offset by rising imports coincident with a revival of investment; this deficit is more than offset, however, by the surplus on

CHART 8
SINGAPORE
MEDIUM-TERM PROJECTIONS, 1985-90



Sources: Data provided by the Singapore authorities; and staff estimates.
¹ Fiscal year runs from April 1 through March 31.



Table 1. Singapore: Medium-Term Projections; A Baseline Scenario, 1985-90

	Actual	Projections				
	1985	1986	1987	1988	1989	1990
		(Percentage change)				
Real GDP	-1.8	-1.6	0.9	4.4	4.6	4.7
Export volume <u>1/</u>	-0.5	-3.6	-0.7	7.2	7.9	5.9
Import volume <u>2/</u>	-4.1	-8.8	-1.5	5.2	5.2	3.2
		(In percent of GDP)				
Investment	41.5	36.5	35.6	36.0	38.3	38.6
Trade balance	-17.4	-11.7	-12.5	-12.1	-11.0	-9.0
Services balance	16.9	15.1	15.0	15.3	14.6	14.5
Current account	-1.4	2.6	1.8	2.6	3.0	4.9
Fiscal balance <u>3/</u>	-0.7	-4.9 <u>4/</u>	-4.5	-1.1	1.7	4.3

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

1/ Includes re-exports.

2/ Includes entrepot imports.

3/ On a fiscal year basis.

4/ Excluding subsidy to the HDB.

invisibles of US\$2 1/2-3 billion. 1/ In the 1990s, a further strengthening, both on goods and services, is foreseen if only as a consequence of some slowing in capital goods imports and the trend strengthening in investment income. In relation to GDP, the trade deficit is expected to decline from almost 12 percent in 1986 to 9 percent in 1990, while the current account surplus is projected to increase from less than 3 percent in 1986 to almost 5 percent in 1990.

An alternative scenario, combining higher oil prices, weaker growth in world demand, and a loosening of wages policy in 1987 and beyond, was also considered. 2/ In such a case, the staff projects GDP growth of about 1/2 percent lower than in the baseline scenario from 1988 onward. This would stem from lower investment and weaker manufacturing activity due to increasing relative unit labor costs and slacker external demand. Higher oil prices and slower export growth result in larger trade deficits; by 1990, the current account surplus would be some 3 percent of GDP less than in the baseline scenario, and the budget surplus, some 1/4 percent below.

The authorities were in general agreement with the thrust of the medium-term outlook. They foresaw a lower potential rate of growth as the economy matured; the shift of the external current account into surplus; and for a time, the persistence of a budget deficit. Nevertheless, they emphasized that cyclical factors would continue to play an important role in explaining the current account surplus in the near term.

V. Staff Appraisal

The period 1985-86 is likely to be characterized by three "firsts" since Singapore's independence in 1965--a declining real level of activity, a budget deficit, and in 1986 a current account surplus. Policies are being reviewed and in many areas new strategies are being pursued.

The growth of activity slackened markedly in the second half of 1984, and by early 1985 the level of real output had started an unprecedented decline. The key expenditure component explaining the downturn in 1985 was gross fixed investment, with the construction sector itself

1/ The baseline scenario assumptions include an oil price of US\$15 per barrel in 1986 and 1987, with the price thereafter being maintained in real terms; LIBOR in the 7-8 percent range; real growth in import demand in partner countries averaging 4 percent; a fall in relative unit labor costs of 24 percent in 1986 and of 6 percent in 1987, with no increase during the rest of the projection period.

2/ This scenario assumes an oil price of US\$17 per barrel in 1987, rising with inflation thereafter; growth in partner country imports averaging 3 percent per annum over these years; and a fall in relative unit labor costs of only 2 1/2 percent in 1987, with a 2 percent increase in each of the subsequent years.

directly contributing 1 percentage point to the fall in real GDP, and renewed weakness in investment in machinery and equipment. Export performance also weakened. The policy response of the authorities has been wide-ranging and firm. Nonetheless, activity in 1986 and even 1987 is likely to remain sluggish, while the current account of the balance of payments is expected to register surpluses on the order of 2 percent of GDP, reflecting both cyclical and structural factors, and assuming no increase in protectionism abroad.

The analysis presented to the staff indicated that the compression of profitability in Singapore vis-a-vis that in other NICs explained a large part of the decline in productive investment and a weaker export performance, though structural difficulties in refining and shipbuilding and the recession in the ASEAN region had also been important. Labor costs in Singapore have risen much faster than productivity, and other business costs have risen as well. The integrated strategy that has been adopted by the authorities is based on a strengthening of competitiveness through a reduction in business costs and an enhanced role for the private sector. Such a strategy appears appropriate to restore growth over the medium term while maintaining a strong external position. However, with the maturing of the economy, the potential rate of growth is likely to have declined significantly.

The policy outlined by the authorities to reduce labor costs is impressive: after annual increases in labor costs of 10 percent in real terms in the early 1980s, these costs are projected to fall by 13 percent in 1986. Over the medium term, however, nominal increases in compensation (including employers' contributions to the CPF) are to be limited to productivity growth. Assuming the full implementation of the authorities' policies to constrain labor costs and the maintenance of the Singapore dollar in nominal effective terms at its March 1986 level, relative unit labor costs in Singapore would fall by some 25 percent between end-1985 and end-1987. Severe wage restraint in the short term seems well suited to Singapore's circumstances. However, the authorities' commitment to pursue a more flexible policy in the medium term seems appropriate, with specific wage rises linked to productivity gains at the enterprise level.

The authorities have indicated that business costs in Singapore may have been as much as one third above those in countries competing for investments. Perhaps one half to two thirds of the differential is seen to have now been offset by adjustment measures, including incomes policy, tax cuts, and exchange rate developments; the remainder may be consistent with the allowable premium, reflecting Singapore's economic, political, and geographical advantages. The flexible approach pursued by the authorities, and the assurances given to the business community that the domestic environment will be conducive to profitability, are welcome, though firm indications by the Government, when possible, of prospective developments in business costs would be helpful for decision making.

The authorities' approach of addressing directly the domestic factors giving rise to high business costs appears realistic. Nonetheless, since mid-1985, when the need for important adjustment measures was officially acknowledged, the exchange rate has played an important supporting role. Inflationary pressures appear minimal at present, and deflation could well be in prospect. If the looked for direct adjustment in business costs proves elusive or inadequate, the role of the exchange rate could well be enhanced. The feedthrough to domestic prices of imported goods would be unavoidable, but if the stabilization of nominal rather than real wages is possible within the context of incomes policy, the effectiveness of such an instrument of adjustment would be assured.

The significant withdrawal of domestic demand by public sector operations has been identified by the Economic Committee as a major factor contributing to the recent downturn, and the need to encourage the investment of domestic savings in domestic productive facilities has been acknowledged. The institutional framework itself may have posed constraints on the availability of domestic equity capital for new productive activities. Funds placed with the CPF, even with the modifications foreseen, are extremely limited to support such investments, while the lack of a well-developed domestic securities market may also have posed constraints on financing options. The prospective establishment of the unlisted securities market should prove helpful, though its contribution will only become clear over time. However, the tax advantages offered those funds held with the CPF and the POSB may well pose an important barrier to the development of a securities market in current circumstances.

The constraints posed by tax systems in other countries limit the possibilities of moving to a simplified broad-based income tax system, that would provide increased scope for the play of market forces. However, whatever scope does exist--particularly with respect to the liberalization of investment incentives--could usefully be exploited.

The stance of financial policies for 1986 would seem appropriate. What scope is available for reducing nominal interest rates--which remain high in real terms--is expected to be exploited. At the same time, development expenditures will be brought forward to support activity, while changes in the tax structure to reduce business costs have been introduced. These initiatives, coupled with sluggish activity, will be reflected in a marked rise in the budget deficit. However, the authorities have confirmed their commitment to balancing the budget over the medium term and to reducing the share of government expenditures in GDP. Such a strategy would contrast sharply with developments in the period before 1985, when significant budgetary surpluses were realized despite large government capital expenditures.

The traditional money supply mechanism for Singapore is undergoing further modification in 1986 as the withdrawal of domestic liquidity

through the operations of the government and public sector entities is reduced and the external current account is expected to register its first surplus. In these circumstances, a thorough review of the adequacy of the traditional instruments of monetary control in Singapore, focusing particularly on the recycling of government deposits through the interbank market and foreign exchange operations, might prove helpful. At the same time, the strengthening of Singapore's external position should make possible an increase in gross official and private capital outflows, for example, in the form of assistance to or direct investment in neighboring countries, combining Singaporean capital and know-how with an ample supply of labor.

It is recommended that the next consultation be held with Singapore on the standard 12-month cycle.

Singapore: Basic Data

Area:	620 square kilometers
Population (mid-1985):	2.56 million
Annual growth of population (1976-85):	1.2 percent
GDP (1985):	US\$17.5 billion
GDP per capita (1985):	US\$6,831

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Proj.
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(Changes in percent; unless
otherwise specified)

Expenditure and production							
Real GDP ^{1/}	10.3	9.9	6.3	7.9	8.3	-1.8	-1.6
Consumption	7.2	5.6	5.7	6.3	5.1	2.6	2.1
Private	6.7	5.6	4.8	5.6	5.4	-0.6	1.0
Public	9.8	5.3	10.9	10.2	3.8	19.5	5.9
Gross fixed capital formation	20.1	16.8	22.5	9.0	8.0	-13.0	-13.3
Private	19.7	17.7	17.0	4.4	8.0	-16.7	...
Public	21.7	13.6	43.3	23.3	8.1	-3.3	...
Total domestic demand	10.0	7.3	10.3	6.4	7.1	-3.4	-3.6
Value added							
Manufacturing	10.8	9.5	-4.7	2.9	9.7	-6.8	-1.1
Construction	9.6	17.6	39.8	29.4	16.0	-13.2	-25.0
Financial and business services	24.3	19.0	9.5	12.5	13.5	3.3	1.5
Industrial production	12.2	9.7	-5.5	2.1	9.0	-7.3	...
Prices and wages (annual average)							
Consumer prices	8.5	8.3	3.9	1.2	2.6	0.5	--
GDP deflator	9.1	8.3	4.7	3.6	1.4	-2.2	-2.0
Earnings per worker	13.0	14.1	15.3	9.0	9.3	6.6	...
Unit labor cost	9.0	6.2	14.3	4.4	1.8	5.7	-12.6
Unemployment rate (percent, annual average)	3.5	2.9	2.6	3.2	2.7	4.1	6.1 ^{2/}
Central government (fiscal year) ^{3/}							
Total revenue	30.7	31.7	15.3	16.9	-0.6	18.8	16.7
Tax revenue	29.8	23.7	18.4	11.2	3.2	-19.0	-17.4
Nontax revenue	32.6	48.5	10.0	27.8	-7.0	87.6	43.6
Total expenditure	29.4	23.0	19.4	18.7	-11.1	47.2	31.5
Current expenditure	17.0	18.1	15.0	14.8	12.1	8.0	20.6
Development expenditure ^{4/}	53.4	30.3	25.3	23.5	-37.8	128.1	42.1

Singapore: Basic Data (continued)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Proj.
	(Changes in percent; unless otherwise specified)						
Money, credit, and interest rates (end of period)							
Narrow money	7.5	18.0	12.6	5.5	3.0	-0.9	...
Quasi-money	38.1	25.2	17.8	15.5	7.9	6.1	...
Broad money	27.9	22.4	15.9	11.9	6.2	3.8	...
Total domestic credit	53.3	89.6	--	42.6	14.7	-8.7	...
Net claims against government <u>5/</u>	-6.7	44.2	-21.6	16.1	4.2	-9.3	...
Credit to private sector <u>5/</u>	60.0	45.4	21.6	26.5	10.5	0.6	...
Interest rates (percent per annum)							
Prime lending rate	13.6	11.8	9.3	9.0	9.4	7.2	...
12-month deposit rate	10.6	9.0	7.1	6.8	6.8	4.9	...
External sector							
Non-oil domestic exports <u>6/</u>	26.2	9.0	-5.3	16.5	23.9	-3.3	14.6
Retained imports (excluding oil refined for export) <u>6/</u>	29.4	9.1	4.6	-1.0	6.2	-9.4	-2.2
Export volume	19.3	2.8	-5.7	16.7	25.8	-4.0	3.3
Import volume	16.0	5.3	6.0	2.4	5.8	-7.6	-6.7
Terms of trade <u>7/</u>	-5.2	2.4	1.7	3.2	-1.9	2.9	5.7
Nominal effective exchange rate	2.6	9.8	9.1	4.9	4.1	-1.3	-14.3 <u>8/</u>
Relative unit labor cost	4.2	10.4	19.3	8.9	6.2	3.6	-25.7 <u>8/</u>

(In billions of U.S. dollars)

Balance of payments							
Exports, f.o.b. <u>9/</u>	18.2	19.7	19.4	20.4	22.7	21.5	18.7
Imports, f.o.b. <u>9/</u>	-22.4	-25.8	-26.2	-26.3	-26.7	-24.5	-20.6
Trade balance <u>9/</u>	-4.2	-6.1	-6.8	-5.8	-4.1	-3.0	-2.0
Services (net) <u>9/</u>	2.7	4.8	5.7	5.2	3.6	3.0	2.6
Transfers (net)	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1
Current account	-1.5	-1.4	-1.2	-0.8	-0.7	-0.3	0.4
Overall position <u>10/</u>	0.7	0.9	1.2	1.1	1.5	1.4	...
External debt <u>11/</u>	0.6	0.6	0.7	0.6	0.5	0.5	...
Gross international reserves (end of period)	6.6	7.5	8.5	9.3	10.4	12.8	...

Singapore: Basic Data (concluded)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Proj.
	(In percent of nominal GDP; unless otherwise specified)						
Aggregate demand and supply							
Expenditure and savings							
Consumption	62.4	58.4	57.8	55.4	54.2	58.0	60.3
Gross fixed capital formation	39.2	41.5	46.1	47.4	47.0	41.5	36.4
Total domestic demand	107.5	103.5	104.4	101.8	102.2	100.9	98.3
(Of which: public sector)	(20.0)	(20.0)	(24.4)	(26.7)	(26.5)	(28.3)	...
Gross domestic savings	36.1	39.5	42.2	44.6	45.6	41.0	39.9
Central government (fiscal year) <u>3/</u>							
Total revenue	26.3	29.1	30.1	31.5	28.5	35.3	42.7
Tax revenue	17.8	18.5	19.7	19.6	18.4	15.5	13.3
Nontax revenue	8.5	10.6	10.4	11.9	10.1	19.7	29.4
Total expenditure <u>4/</u>	24.7	25.5	27.3	29.0	23.5	36.0	49.0
Current expenditure	14.7	14.6	15.1	15.5	15.8	17.8	22.2
Development expenditure <u>4/</u>	10.0	10.9	12.2	13.5	7.7	18.2	26.8
Surplus/deficit (-)	1.6	3.6	2.8	2.5	5.0	-0.7	-6.4
External sector							
Exports	158.3	141.8	127.5	118.3	120.8	123.0	110.6
(Non-oil domestic exports)	(47.2)	(43.3)	(36.8)	(38.3)	(43.2)	(43.5)	(51.7)
Retained imports (excluding oil refined for export)	110.9	101.7	95.6	84.6	81.8	72.2	78.3
Current account	-13.1	-9.9	-7.9	-4.7	-3.9	-1.4	2.6
External public debt service ratio (as percent of exports of goods and nonfactor services) <u>7/</u>	0.4	0.3	0.3	0.6	0.4	0.4	0.4
International reserves (in months of retained imports)	4.1	3.9	4.4	5.0	5.7	7.3	...

1/ At 1968 market prices.

2/ At end-March.

3/ The fiscal year runs from April 1 through March 31. Figures are not necessarily comparable between years as they are affected by changes in budgetary procedures. This is particularly true for categories affected by the HDB transactions.

4/ Includes lending and subsidy to the Housing and Development Board.

5/ Percentage contribution to change in total domestic credit.

6/ Based on Singapore dollar values.

7/ Price of non-oil domestic exports relative to price of retained imports (excluding oil refined for export).

8/ Assumes the constant nominal effective exchange rate from April.

9/ Certain important regional merchandise trade transactions are included in the services, rather than trade, account.

10/ Excluding valuation changes in reserves.

11/ Medium- and long-term debt of the public sector. Little information is available on external debt of the nonmonetary private sector.

Singapore--Fund Relations

(As of April 30, 1986)

I. Membership status

- (a) Date of membership: August 3, 1966
 (b) Status: Article VIII

A. Financial Relations

(Amounts in millions of SDRs, unless otherwise indicated)

II. General Department

- (a) Quota: 92.4
 (b) Fund holdings of Singapore dollars: 9.4 (10.16 percent of quota)
 (c) Fund holdings of currency subject to repurchases: --
 Of which: Credit tranches --
 Special facilities --
 (d) Reserve tranche position: 83.0
 (e) Current operational budget (maximum use of currency) SDR 2.5 million on the transfer side, SDR 2.3 million on the receipts side

	<u>Limit</u>	<u>Outstanding</u>	<u>Uncalled</u>
(f) Lending to the Fund:	--	--	--
GAB)	--	--	--
SFF)	--	--	--
Enlarged access	--	--	--
Total	--	--	--

III. Current stand-by or extended arrangement and special facilities

- (a) Current stand-by or extended arrangement: None
 (b) Previous stand-by or extended arrangement: None
 (c) Special facilities (the current and past two years): None

IV. SDR Department

- (a) Net cumulative allocation: 16.5
 (b) Holdings: 68.19 (413.88 percent of cumulative allocation)
 (c) Current designation plan (amount of maximum designation): None

V. Administered Accounts

(a) Trust Fund loans:	None
(1) Disbursed:	None
(2) Outstanding:	None
(b) SFF Subsidy Account:	None
(1) Donations:	None
(2) Loans to Fund:	None
(3) Payments to Fund:	None

VI. Overdue obligations to the Fund

(a) General Department:	Repurchases -	None
	Charges -	None
(b) SDR Department:	Charges -	None
(c) Trust Fund:	Repayments -	None
	Interest -	None

VII. Singapore has not used Fund resources.

B. Nonfinancial Relations

VIII. Exchange rate arrangement

The Singapore dollar is pegged, within margins, to an undisclosed basket of currencies of Singapore's major trading partners. As of April 30, 1986, US\$1 = S\$2.1945 and SDR 1 = S\$2.58064.

IX. Last Article IV consultation

Held in Singapore during October 29-November 8, 1984; the Executive Board discussed the staff report (SM/84/278) on January 18, 1985.

X. Technical assistance

None

XI. Resident Representative/Advisor

None

Singapore: Financial Relations with the World Bank

14 IBRD loans were approved for Singapore between 1966 and 1975. Singapore is not an active borrower from the IBRD. In 1981, it received the final disbursement, which was a US\$19.5 million education loan, approved in February 1974.

<u>IBRD Lending</u>	<u>December 31, 1985</u> <u>(US\$ mn.)</u>
Total commitments:	181.30
Of which: Disbursed	179.35
Cancelled	1.95
Repaid	111.57
Repayments in 1985 (calendar)	17.32
Of which: Principal	11.99
Total commitments by purpose	
Power, water, sewerage	93.3
Education	29.0
Environment	25.0
Transportation (Port)	15.0
Telecommunications	14.0
Development Bank	5.0

Singapore--Statistical Issues

1. Outstanding statistical issues

a. Monetary accounts

Monetary data in IFS, consultation reports, and national sources are identical. However, a detailed breakdown of other items (net) would be desirable, but at present it is not available.

b. Prices

The weighting pattern and base year (1973) of the wholesale price index (WPI) is becoming outdated, and the import and export components of the WPI have weighting systems calculated in different base years (1973 and 1978, respectively), making it difficult to compute the terms of trade. The authorities plan to revise the WPI, using the new base year of 1983, in the near future.

c. Productivity and employment

Official productivity figures are incompatible with those calculated using real GDP and employment data. This apparently reflects inadequacies in the employment data.

d. Government finance

Detailed data for the consolidated central government are available in the Government Finance Statistics Yearbook (GFSY) through fiscal year 1983/84. A number of methodological issues, especially with regard to the classification of data on financing and debt, are being raised in correspondence with the authorities. Data published in IFS differ from those contained in the GFSY because the latter covers nonfinancial public enterprises and transactions of extrabudgetary accounts.

e. International banking statistics

Singapore participates in the Fund's international banking statistics project (IBS) and provides, on a quarterly basis, the overall external positions of the Asian Currency Units (ACUs) vis-a-vis individual countries, except for its liabilities to a group of seven countries in Asia. Currently, the Bureau estimates a bank/nonbank breakdown of Singapore's position based on the reports of other countries participating in the IBS project. Hence, the accuracy of the international banking statistics published by the Fund would be improved if Singapore would report the external positions of all its banks--domestic banks and ACUs--vis-a-vis banks and nonbanks in all countries in Asia and in the rest of the world.

f. Balance of payments

Trade data provided by the authorities exclude trade with Indonesia, which is included under "other transportation and services" in the services account. No detailed breakdown of "other transportation and services" which also includes ship repairing, contract oil refining, income from financial and business services, and transport and communications activity is available.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Singapore in the May 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Monetary Authority of Singapore, which during the past year have been provided on a timely basis.

Status of IFS Data

		<u>Latest Data in May 1986 IFS</u>
Real sector	- National accounts	1983
	- Prices: consumer	February 1986
	wholesale	January 1986
	- Production: manufacturing	Qtr. 4, 1985
	- Employment	...
	- Earnings	...
Government finance	- Deficit/surplus	February 1986
	- Financing	February 1986
	- Debt	January 1986
Monetary accounts	- Monetary Authorities	November 1985
	- Deposit money banks	January 1986
	- Other financial institutions	January 1986
Interest rates	- Discount rate	...
	- Bank lending/deposit rate	November 1985
	- Bond yield	...
External sector	- Merchandise trade:	
	Value	January 1986
	Unit values	December 1985
	- Balance of payments	1984
	- International reserves	December 1985
	- Exchange rates	March 1986

