Economic Research

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MALAYSIAN RATING CORPORATION BERHAD
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In a nutshell

- Singapore's economy grew 4.9% in 2011, down from 14.8% in 2010, and continues to be hampered by sub-par growth in advanced economies, as much of 2011's growth was driven by domestic demand unlike in past years when trade took the lead. Just released data on 1Q2012 shows the economy slowing further, with overall real gross domestic product (GDP) growth falling to just 1.6% year-on-year (y-o-y), largely from falling net exports and negative public consumption growth. Singapore's economy faces multiple headwinds in the coming months. Europe's continuing austerity, concerns over China's growth momentum and weakening sources of domestic growth are some of the major risk factors affecting Singapore's growth prospects, which have shown higher growth volatility since 2007. As such, we expect Singapore's economy to significantly underperform this year with growth between 2.5%-3.5%.
- Unlike much of the rest of the region, Singapore continues to grapple with an elevated rate of inflation. Of greater concern is that core inflation averaged over 3.0% in Jan-May 2012 compared to less than 2.5% in 4Q2011. This points to stronger underlying inflationary pressures and especially demand-led factors. That inflation continues to run well above trend is therefore cause for caution.
- With signs that inflationary expectations are becoming less well-anchored, the Monetary Authority of Singapore (MAS) has shifted towards tightening the monetary policy stance. Given the exposure of the Singapore economy to import prices, there is a fair chance this strategy will succeed. As uncertainty over global economic prospects have clouded commodity prices (including, critically, oil), imported inflation should moderate which would then obviate any further need of a monetary policy response. Viewed over a longer period, MAS faces an uphill task going forward, and further prudential measures may be called for beyond the Nominal Effective Exchange Rate (NEER) as the sole monetary policy tool in maintaining price stability and supporting economic growth.
- Part of our concern over the monetary policy stance is driven by overly robust bank lending. Domestic credit growth hit 13.9% in April 2012, the 19th consecutive month with over 10%. One aspect of this is market-driven interest rates. From averaging over 3.0% in 2006, overnight money rates have consistently been below 0.5% since 4Q2008. With inflation hovering above 5%, that means real interest rates are far into negative territory, making the real cost of interbank borrowing negative and at near historical lows with understandable consequences for credit growth. This can be a source of potential instability and banking sector vulnerability going forward, and both the situation and policy responses bear close watching.
- Much of this surging bank lending is turning up as acquisition in assets and financing of trade, rather than for consumption. Balance of payments (BOP) and International Investment Position (IIP) data show strong outflows of capital for portfolio and direct investment elsewhere, somewhat offsetting inward capital flows from foreign direct investors and far outstripping inward portfolio investment. In 2011, private sector Singaporean outward portfolio investments exceeded inward portfolio investment by nearly 6 to 1, and the net financial account of the BOP reached an all time low of negative SGD50.4 billion.
- Singapore's external debt position is on the high side at 432.0% of GDP at the end of 2011, with a matching high ratio of short-term debt to gross total debt of 69.5%. However, these numbers are somewhat off previous highs, and are also somewhat misleading as three-quarters of the debt is concentrated in the financial sector and is more than matched by even higher overall holdings of external assets. Within the financial sector itself, the net foreign position is currently slightly negative, reaching SGD8.5 billion at the end of 2011, but this is just a fraction of the sector's gross external liability position and amply covered by Singapore's official reserves.
- The Singapore government has recorded a deficit just once since 1987, in 2009 at just 1.6% of GDP. Even including that minor dip, the government budget surplus has averaged 6.3% of GDP over the last ten years to 2011. Despite this, Singapore maintains a high level of government debt, through a deliberate policy of supplying liquid sovereign papers intended for the continued development of its capital markets. More importantly, all government debt papers are issued domestically, with no external liabilities, meaning there is little to no risk of currency fluctuations affecting the government's liability position. As a result of these factors, yields on Singapore government debt are well below United States (US) Treasuries of equivalent maturities.

- In looking at the macroeconomic matrices, Singapore lies near the average of the countries in our sample along most dimensions. There is some difficulty due to the misleading nature of some of the indicators like government debt and population growth. While the high level of the former is not an issue, the latter is the main threat to Singapore's headline growth prospects. The population growth rate for citizens is less than half the replacement level, and growth over the last twenty years has been increasingly driven by emigrants. Unless Singapore is willing to accept greater demands on its infrastructure and property prices, the policy of open emigration may need to be curtailed, leading to slower headline growth.

Introduction

Singapore is one of the wealthiest countries in the world, and is located in the Straits of Malacca, bordering Malaysia to the north and Indonesia to the south and west. To the east, the country is bordered by the South China Sea. The city state is made up of 63 islands, although most of the population resides on the main island of Singapore (also called Pulau Ujong). Singapore is also one of the smallest countries in the world by land area, ranked 192nd, with approximately 700 square kilometers of land. The country's size has physically increased since independence in 1965, as reclamation projects are continually adding to the land area. While the main island of Singapore is mainly low lying (Bukit Timah is the highest point at 166m), available arable land area is small at just 1.5% of the total largely due to urbanisation, although about 25% of the total land area has been set aside as forest reserves.

Human habitation on Singapore can be traced back to the 11th century, although the island only became a major trading post beginning in the late 14th century as part of the Sultanate of Malacca. After a Portuguese attack burned down the settlement in 1587, the island again became a major trading post when Stamford Raffles, then acting as an agent for the British East India Company (EIC), came to an agreement with the Sultan of Johor to create a British trading post on the island in 1819. The island as a whole was subsequently handed over to the British in 1824, became part of the EIC's Straits Settlements (along with Malacca and Penang) in 1826, and eventually became a Crown colony in 1867.

During World War II, Singapore, like much of South East Asia, was occupied by the Japanese after a whirlwind campaign following the attack on Pearl Harbour. Japanese rule over the region lasted until the end of the war in 1945. Postwar independence movements did not leave Singapore untouched, although initial attempts at independence were turned down by the British government. Limited self-rule was, however, progressively granted, culminating in the elections of 1959 for a new Legislative Assembly with fully elected members, an election won by the People's Action Party (PAP). In 1963, Singapore gained independence from the United Kingdom (UK) as part of the Federation of Malaysia, though this was to last less than two years. In August 1965, amid growing policy disagreements and tensions with the central government of Malaysia, Singapore became a fully independent, sovereign state in its own right.

Under the PAP government, which has won every election to date, Singapore has built on its strength as a regional trade hub and free port. With an already wealthy local business community (GDP per capita was the third highest in East Asia at independence), progressive economic policies, political stability, and significant attention paid towards structural growth factors, Singapore has been one of Asia's more famous economic success stories.

This success has not come without speedbumps along the way. The dependence on trade has meant that Singapore's growth record is inextricably tied to the path of the global economy. Even as outright poverty has ceased to exist, income and wealth inequality tops the league table for developed countries. Land constraints and immigration have pushed home prices out of reach of ordinary citizens, despite considerable investment in public housing. Demographic change has also cut domestic population growth to below the replacement level. The policy of attracting global talents and migrant workers has helped maintain headline growth, but at the cost of partially alienating the local electorate. The process was particularly rapid after 1990, with the ratio of citizens to the total population falling from 86.1% to 74.1% in 2000, and just 63.6% in 2010.

In the 2011 general elections, the ruling PAP saw its share of the popular vote fall to just 60.1%, with immigration, living costs and housing the key issues. Nevertheless, the PAP retained 81 out of 87 seats in Parliament, ensuring political stability and continuity.

The government and legal system

The government in Singapore, as is common in democratic countries, is divided into three branches – the executive, the legislative and the judiciary. The form of government is that inherited from the UK, a parliamentary democracy with the political party comprising the elected majority in the 87-seat Parliament also forming the executive, with a Prime Minister at its head. The country has had just three Prime Ministers since independence: Lee Kuan Yew (1965-1990), Goh Chok Tong (1990-2004), and Lee Hsien Long (2004-present).

Parliament serves a term of five years, after which a general election is called. Also like the UK, the principle of collective responsibility is adhered to, with the Cabinet of Ministers jointly responsible to parliament for government actions. The main departure from the UK model is that Parliament has only a single chamber, as opposed to the bicameral system used in the UK. A separately elected President is the head of state for a term of six years.

The judicial system is generally acknowledged for its professionalism and integrity. The legal system has its basis in English common law, with a written constitution as the primary foundation. There are some stark differences, however, such as the absence of trial by jury. Singapore also has the death penalty, and has one of the highest per capita executions in the developed world.

Economic background and structure

The basis of Singapore's economy has always been trade. Beginning with its establishment as a freeport under the EIC, Singapore's economy flourished, first as a way to get around Dutch trade restrictions in South East Asia and then from the burgeoning east-west China trade. The concurrent economic development of Malaya and Indonesia helped the process along, with Singapore, along with the other Straits Settlements, comprising the main points of embarkation of produce such as tin and rubber. The establishment of a British naval base in Singapore also provided a strong focal point for trade.

Beginning after independence in 1965, the government moved to diversify the economy away from pure reliance on entrepot activities. Singapore developed a strong manufacturing base, gradually moving up the value chain from the 1980s onwards. As a regional trade hub, the finance sector very naturally has developed in tandem, a trend that has been strengthened by the development of deep capital markets and the wooing of major global banking houses.

While trade remains the basis for Singapore's prosperity, the economy has other non-trade sources of income. Singapore has developed as a tourism hub, attracting 13.2 million tourists in 2011, up 13.2% from 2010 and more than double the level of 2003. Part of the attraction is the establishment of "integrated" resorts, including casinos (gambling was legalised in 2004), and medical tourism. Even within the arena of trade, the economy has continued to respond to changing patterns of demand. Where machinery & transport equipment and electronics were the mainstays of exports and industrial output in the early part of the past decade, oil refining, pharmaceuticals and chemicals have gained recent prominence. Pharmaceutical output alone has more than tripled in the last four years.

The economy in detail

Growth momentum slowing

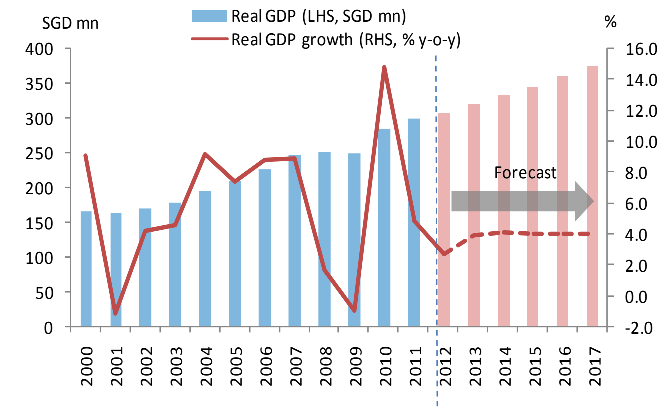
Singapore's economy grew 4.9% in 2011, down from 14.8% in 2010. Real GDP growth in 2011 suffers in comparison to 2010 largely due to the strong recovery displayed by Singapore in that year, after suffering a contraction of 1.0% in 2009 and below trend growth of 1.7% in 2008. In a sense, 2010 was a catch-up year, and the economy fell back to just below its long-term average growth trend in 2011.

Having said that, the Singapore economy continues to be hampered by sub-par growth in advanced economies as much of 2011's growth was driven by domestic demand unlike in past years when trade took the lead. Net exports contributed just 23.7% of real GDP growth in 2011, compared to 75.4% in 2010. Much of the heavy lifting in 2011 was from private consumption and gross fixed capital formation, which contributed half of total growth.

On the supply side, manufacturing growth was the main contributor to economic growth, posting a strong expansion of 7.6% (2010: 29.7%), followed by the finance and insurance sector which expanded by 9.1% (2010: 12.4%). Together these two sectors contributed nearly two-thirds of Singapore's 2011 GDP growth. On the flip side, the wholesale and retail trade sector disappointed in 2011, growing by just 1.1% in 2011 (2010: 15.1%), as higher inflation rate into incomes as average real monthly earnings growth weakened from 2.8% in 2010 to 0.7% in 2011.

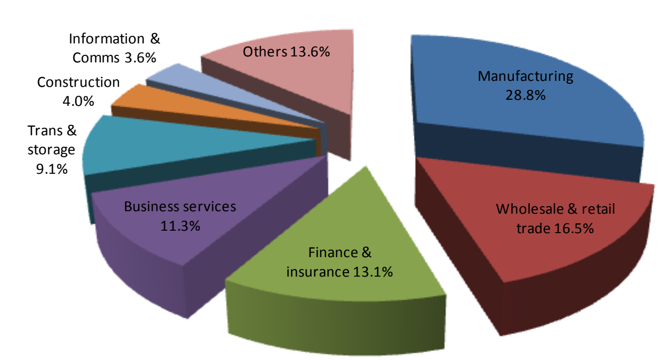
Just released data on 1Q2012 shows the economy slowing further, with overall real GDP growth falling to just 1.6% y-o-y, largely from falling net exports and negative public consumption growth. The economy was supported by private consumption growth and booming investment on the demand side, and services and construction on the supply side.

Chart 1: Real GDP and real GDP growth



Source: IMF World Economic Outlook
Note: 2012-17 GDP are forecast figures by IMF

Chart 2: Singapore economic structure (2011)



Source: CEIC, MARC Economic Research

Singapore's economy faces multiple headwinds in the coming months. The ratio of net trade to real GDP has risen to an average 28.4% in the past ten years, compared to 16.1% in the preceding decade. With global trade challenged by recession in Europe, weakening growth in China and uncertain prospects in other major markets like the US and Japan, growth growing forward will need to be rebalanced towards domestic demand, as the increased exposure to the global economy will drive greater volatility. Europe's continuing austerity, concerns over China's growth momentum and weakening sources of domestic growth are some of the major risk factors affecting Singapore's growth prospects, which have shown higher growth volatility since 2007. As such, we expect Singapore's economy to significantly underperform this year with growth between 2.5%-3.5%, although this forecast is somewhat more optimistic than that of the authorities. In its latest monetary policy statement (13 April 2012), MAS believes Singapore's growth this year will come in between 1%-3%.

Table 1: Real GDP growth (% y-o-y)

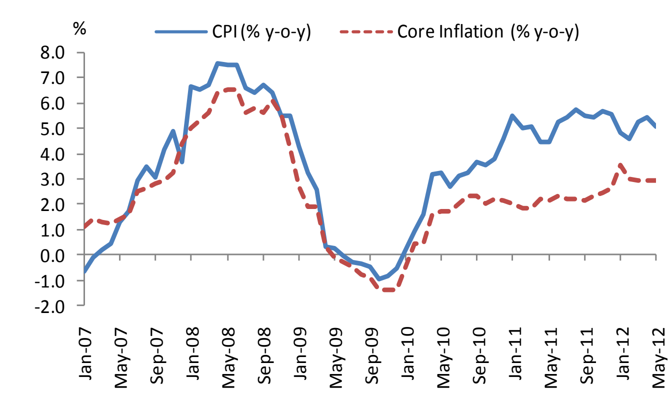
	2Q10	*3Q10*	*4Q10*	*1Q11*	*2Q11*	*3Q11*	*4Q11*	*1Q12*
Gross Domestic Product	19.8	10.6	12.5	9.1	1.2	6.0	3.6	1.6
By Expenditure								
Final consumption expenditure	6.6	4.7	8.6	3.5	5.4	4.9	0.2	2.0
(Private)	7.3	3.4	6.7	3.4	5.5	5.9	1.9	4.3
(Government)	3.1	9.7	15.8	4.0	4.7	1.3	-5.8	-3.7
Gross fixed capital formation	2.2	10.3	5.8	-3.4	8.6	8.0	-0.2	18.4
(Construction and Works)	11.6	2.6	-3.9	3.2	-0.1	1.4	1.4	6.4
(Transport Equipment)	-69.5	8.4	76.9	-47.6	107.1	69.9	-10.5	183.6
(Machinery Equipment and Softwares)	43.3	21.9	7.9	3.3	3.3	2.8	0.5	5.0
Exports of goods and services	24.5	19.0	12.6	8.1	1.1	0.8	0.9	2.2
Imports of goods and services	21.7	15.7	10.5	5.9	2.5	0.7	1.0	4.9
By industry								
Manufacturing	45.2	13.7	25.7	15.8	-5.9	13.7	9.2	-1.0
Electricty, gas & water supply	6.9	5.4	3.3	1.6	4.1	3.0	-0.4	2.9
Construction	9.4	3.8	-3.1	4.2	1.1	2.4	2.9	7.7
Services	12.7	10.6	9.7	7.5	4.6	3.6	2.1	2.2

Source: CEIC

Inflation is a concern

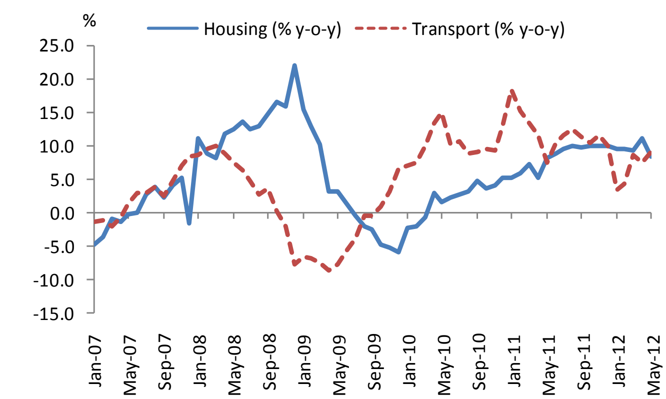
Unlike much of the rest of the region, Singapore continues to grapple with an elevated rate of inflation. Inflation in 1Q2012 moderated to 4.9% compared to 5.5% in 4Q2011, but on a monthly basis the Consumer Price Index (CPI) increased by an average 5.2% y-o-y in March-May 2012 compared to 4.6% in February and 4.8% in January 2012. Of greater concern is that core inflation averaged over 3.0% in Jan-May 2012 compared to less than 2.5% in 4Q2011. This points to stronger underlying inflationary pressures and especially demand-led factors, unlike last year when inflation was primarily a consequence of higher (imported) oil prices. In contrast with less developed economies in the region, Singapore is less exposed to food price volatility as with higher incomes, food is a smaller part of the consumption basket. That inflation continues to run well above trend is therefore cause for caution.

Chart 3: Consumer and core inflation indexes



Source: CEIC, MARC Economic Research

Chart 4: Housing and transport inflation



Source: CEIC, MARC Economic Research

Monetary policy shifted towards tightening

With signs that inflationary expectations are becoming less well-anchored, MAS has shifted towards tightening the monetary policy stance. In its last monetary policy meeting, the slope of the SGD NEER band was increased slightly and a narrower intervention band was reintroduced. This fairly slight adjustment to monetary policy is predicated on slowing growth over the coming months, wherein inflationary pressures should recede going into the second half of the year.

Given the exposure of the Singapore economy to import prices, there is a fair chance this strategy will succeed. As uncertainty over global economic prospects have clouded commodity prices (including, critically, oil), imported inflation should moderate which would then obviate any further need of a monetary policy response. However, property prices continue to be an area of concern even with the prudential measures put into place last year such as the higher stamp duty on foreign ownership. The growth of the housing component of the CPI has averaged over 9% in the past year to 1Q2012.

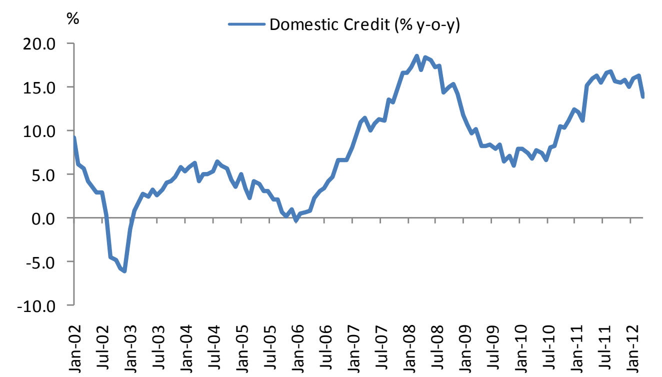
Viewed over a longer period, MAS faces an uphill task going forward. Inflation over the last few years has been substantially higher than Singapore's long-term norm, in part due to the global boom in commodity prices but also due to fundamental changes in Singapore's economy and demographic makeup. Singapore's expanding role as the region's financial centre also extends its vulnerability to asset price inflation and not just consumer price inflation. This suggests that further prudential measures may be called for, beyond the NEER as the sole monetary policy tool in maintaining price stability and supporting economic growth.

Overly robust bank lending

Part of our concern over the monetary policy stance is driven by overly robust bank lending. Domestic credit expansion hit 13.9% in April 2012, the 19th consecutive month with over 10% growth. For domestic banking units alone, credit growth averaged over 25% in the year to April 2012, highly unusual for a mature economy with developed financial markets. In fact, Singapore's historical record on bank lending looks like a tale of two cities – relatively sedate credit growth in the first half of the past decade, then generally high but also highly volatile lending growth beginning from 2007 (see chart).

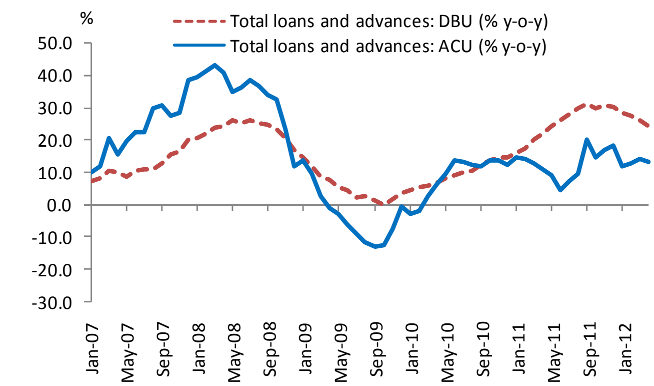
One aspect of this is market-driven interest rates – with monetary policy dependent on a foreign exchange target, liquidity conditions and interest rates would depend on monetary policy settings prevailing in major trading partners. With the US, UK and the Eurozone driving down policy rates in response to the Great Recession (which officially began in December 2007 in the US) and subsequent debt crises, market interest rates in Singapore have followed suit.

Chart 5: Domestic credit



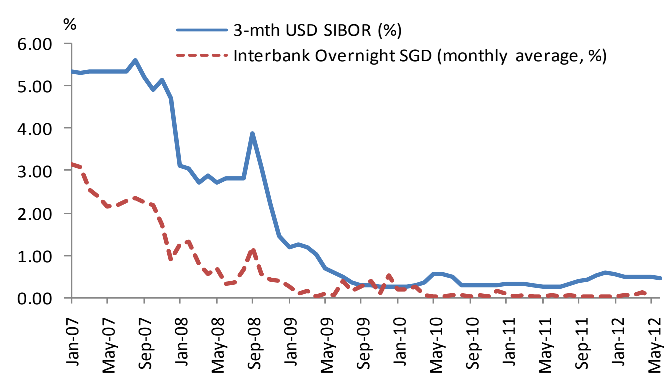
Source: CEIC, MARC Economic Research

Chart 6: Loans and advances Domestic Banking Units (DBU) and Asian Currency Units (ACU)



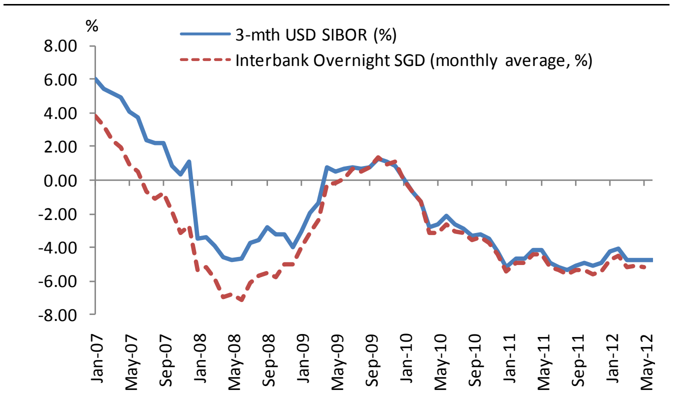
Source: CEIC, MARC Economic Research

Chart 7: Singapore inter-bank offered rate (SIBOR) and overnight nominal interest rates



Source: CEIC, MAS

Chart 8: SIBOR and overnight real interest rates



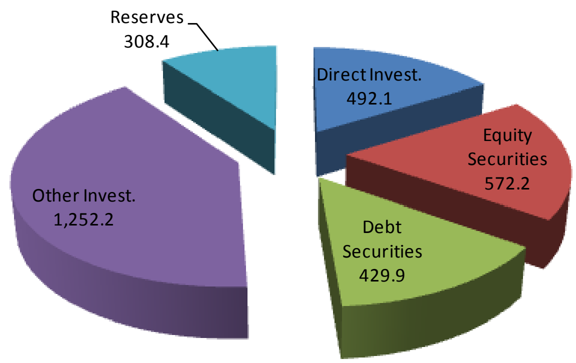
Source: CEIC, MAS

From averaging over 3.0% in 2006, overnight money rates have consistently been below 0.5% since 4Q2008, a consequence of conditioning on a foreign exchange target as the primary tool of monetary policy. With inflation hovering above 5%, that means real interest rates are far into negative territory (see chart), making the real cost of interbank borrowing negative. If we look at consumer lending rates, the same pattern is revealed but with only mildly positive lending rates. Nevertheless, current real borrowing costs are at near historical lows with understandable consequences for credit growth. This can be a source of potential instability and banking sector vulnerability going forward, and both the situation and policy responses bear close watching.

Balance of payments and official reserves

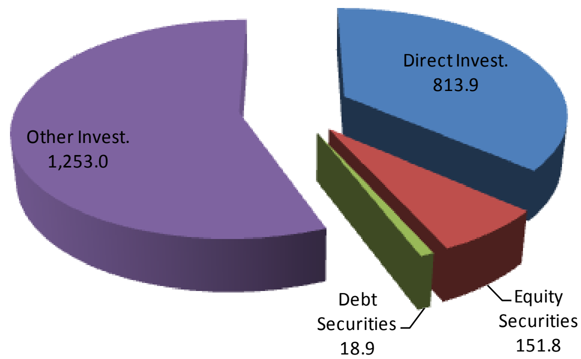
One saving grace is that much of this surging bank lending is turning up as acquisition in assets and financing of trade, rather than for consumption. BOP and IIP data show strong outflows of capital for portfolio and direct investment elsewhere, somewhat offsetting inward capital flows from foreign direct investors and far outstripping inward portfolio investment. In 2011, private sector Singaporean outward portfolio investments exceeded inward portfolio investment by nearly 6 to 1, and the net financial account of the BOP reached an all-time low of negative SGD50.4 billion.

Chart 9: Gross international assets 2011 (SGD billions)



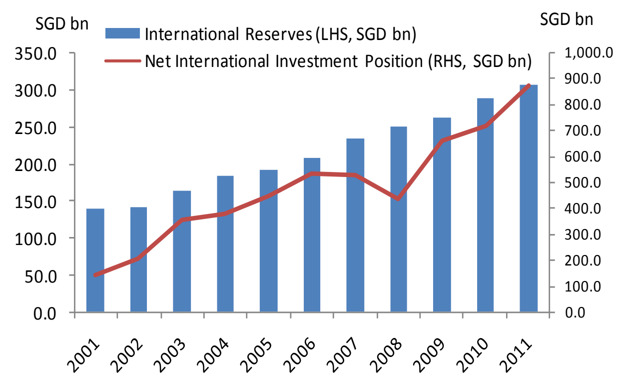
Source: CEIC, MARC Economic Research

Chart 10: Gross international liabilities 2011 (SGD billions)



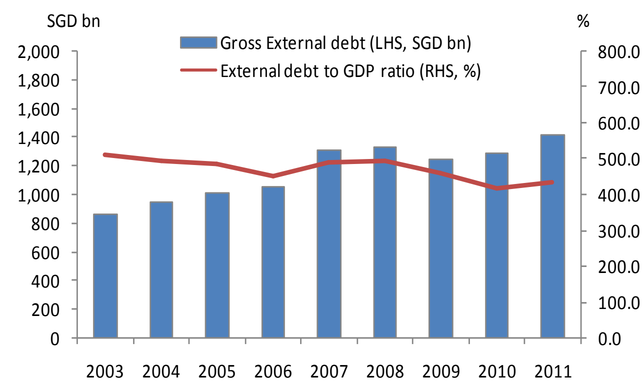
Source: CEIC, MARC Economic Research

Chart 11: Net International Investment Position and International Reserves



Source: CEIC

Chart 12: Gross external debt and debt-to- GDP ratio



Source: CEIC, MARC Economic Research

More fundamentally, the current account is in a solid position, recording a healthy surplus on goods and services, reaching a historical peak in 2010 of SGD75.7 billion before moderating somewhat to SGD71.7 billion in 2011. The overall balance of the BOP is a solid SGD21.5 billion, contributing to an increase in international reserves to SGD308.4 billion or USD237.7 billion.

Coupled with the use of a foreign exchange target as the basis for achieving price stability, this has meant a generally appreciating trend for the SGD against other currencies, a process accelerated by weakening major currencies in the aftermath of the Great Recession.

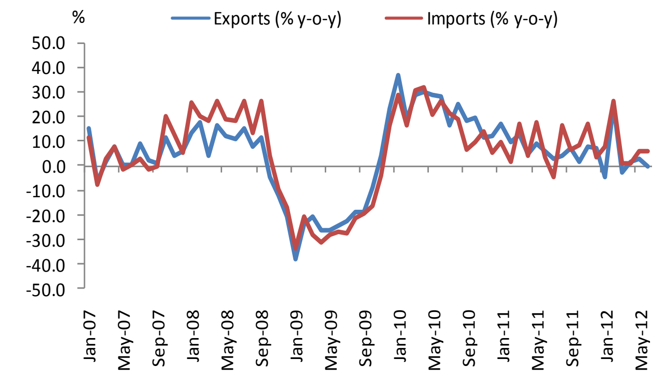
Singapore's external debt position is on the high side, at 432.0% of GDP at the end of 2011, with a matching high ratio of short-term debt to gross total debt of 69.5%. However, these numbers are somewhat off previous highs, as external debt to GDP was as high as 512.4% in 2003, and the short-term debt ratio peaked at 78.7% in 2005. These high ratios are somewhat misleading as three quarters of the debt is concentrated in the financial sector, befitting Singapore's status as a regional financial centre, and is more than matched by even higher overall holdings of external assets. Within the financial sector itself, the net foreign position is currently slightly negative, reaching SGD8.5 billion at the end of 2011, but this is just a fraction of the sector's gross external liability position and amply covered by Singapore's official reserves.

Table 2: Balance of payments

SGD million	2006	2007	2008	2009	2010	2011
Current Account	56,652.2	69,082.4	37,275.5	43,836.0	75,686.7	71,679.5
Goods	79,661.6	85,998.8	58,948.3	68,755.4	86,033.6	84,840.5
Services	-11,524.5	-3,833.7	-3,781.3	-4,637.0	2,083.9	2,319.8
Primary Income	-8,333.6	-8,547.8	-12,617.7	-14,470.6	-5,390.4	-7,038.8
Secondary income	-3,151.3	-4,534.9	-5,273.8	-5,811.8	-7,040.4	-8,442.0
Capital and Financial Account	-30,819.7	-39,417.0	-21,860.8	-32,985.8	-17,626.8	-50,360.5
Capital Account	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	-30,819.7	-39,417.0	-21,860.8	-32,985.8	-17,626.8	-50,360.5
Net Errors and Omissions	1,163.2	-367.8	3,116.4	5,606.0	-579.4	168.7

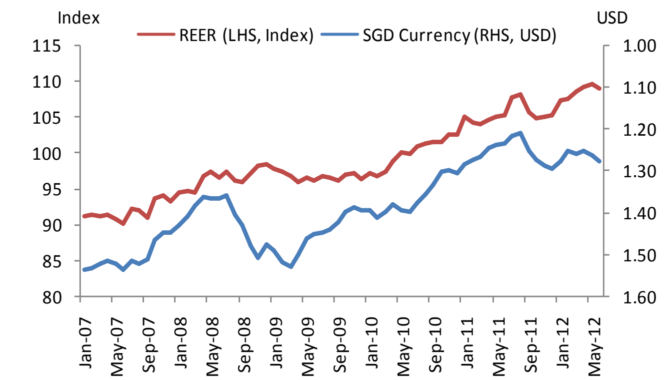
Source: CEIC

Chart 13: Exports and imports



Source: CEIC, MARC Economic Research

Chart 14: SGD-USD exchange rate (inverted) and real effective exchange rate (2010=100)



Source: CEIC, MARC Economic Research

Government operations and debt

The Singapore government has recorded a deficit just once since 1987, in 2009 at just 1.6% of GDP. Even including that minor dip, the government budget surplus has averaged 6.3% of GDP over the last ten years to 2011. Much of this was achieved through low expenditure relative to the size of the economy, averaging 15.0% of GDP over the same period, compared to revenue levels averaging at 21.3% of GDP. While revenue ratios are pretty much around the regional average, expenditure levels are well below.

Table 3: Government finances

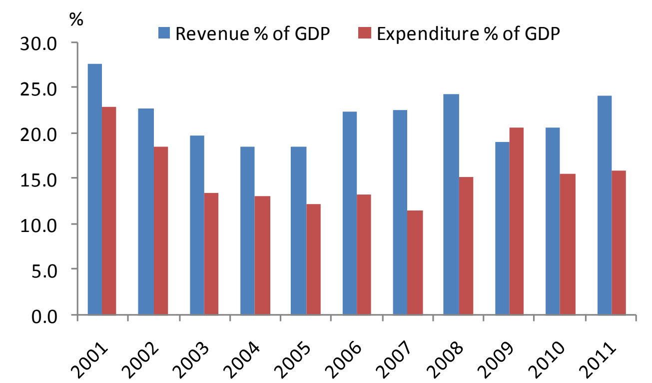
SGD millions	2007	2008	2009	2010	2011[e]
Total Revenue	60,596.5	65,334.3	51,451.8	64,088.6	79,080.8
Total expenditure and lending	30,828.2	41,234.2	55,809.4	48,655.0	52,456.0
Overall balance	29,768.3	24,100.1	(4,357.6)	15,433.6	26,624.8
Overall balance (% GDP)	11.1	9.0	(1.6)	5.0	8.1
Government debt (% GDP)	87.5	95.0	108.0	103.6	108.3

Source: CEIC, MARC Economic Research

Despite this, Singapore maintains a high level of government debt through a deliberate policy of supplying liquid sovereign papers intended for the continued development of its capital markets, a key linchpin in Singapore's long-term growth strategy, and to supply a guaranteed flow of income to the Central Provident Fund (CPF). Proceeds from bond issues are apparently managed through the government's sovereign wealth fund Temasek Holdings. More importantly, all government debt papers are issued domestically with no external liabilities, meaning there is little to no risk of currency fluctuations affecting the government's liability position. As a result of these factors, yields on Singapore government debt are well below US Treasuries of equivalent maturities. Overall, we find little to criticise regarding Singapore's fiscal position.

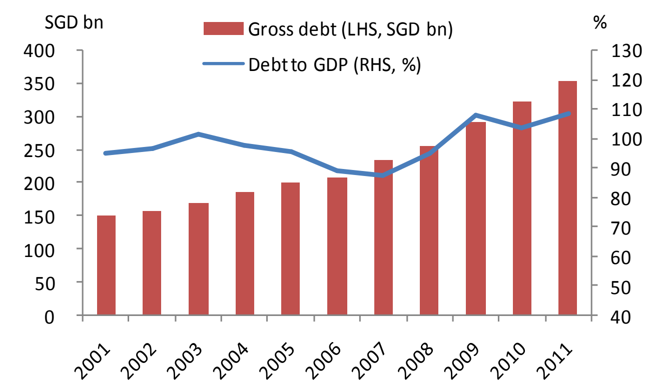
If there is an area of concern, it lies with the ability of Temasek to preserve capital invested, as up to 70% of it is invested outside of Singapore. This exposes bondholders indirectly to potential capital and exchange losses if Temasek suffers bad investments such as its ill-timed entry into Merrill Lynch in 2008, but we evaluate the probability of this as very low.

Chart 15: Government revenue and expenditure



Source: CEIC, MARC Economic Research

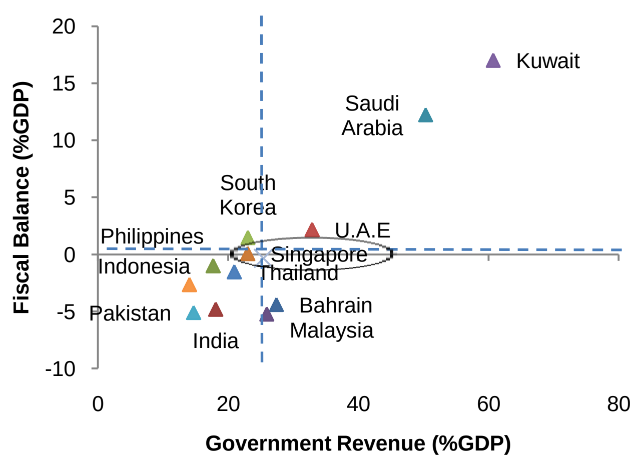
Chart 16: Gross government debt and debt-to-GDP ratio



Source: CEIC, MARC Economic Research

Comparison of five-year median macroeconomic matrices

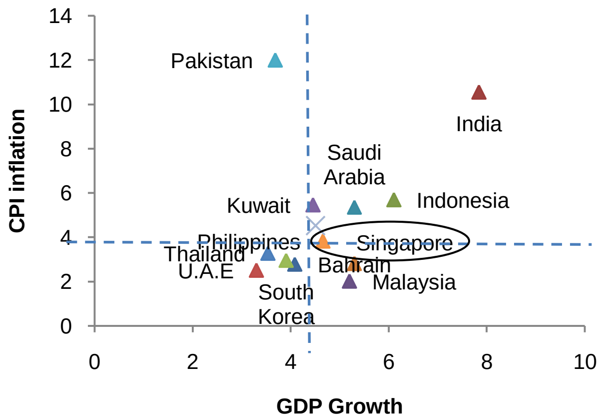
Chart 17: Government revenue vs. Fiscal balance



Sources: IMF & MARC Economic Research

- In the revenue against fiscal balance matrix, Singapore is close to the average median of the countries under our coverage.
- The government has considerable fiscal space, taking into consideration the long-held policy of maintaining budget surpluses, and very low yields on government debt.

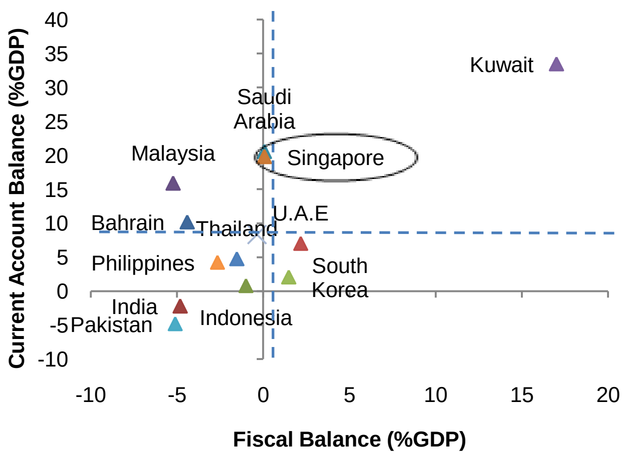
Chart 18: CPI & GDP growth



Sources: IMF & MARC Economic Research

- Although recent inflation experience has been on the high side for Singapore, over a five-year period inflation is still low relative to the countries in our sample.
- Growth is slightly above the average, although future prospects of maintaining this performance might dim due to demographic factors and an uncertain external outlook.

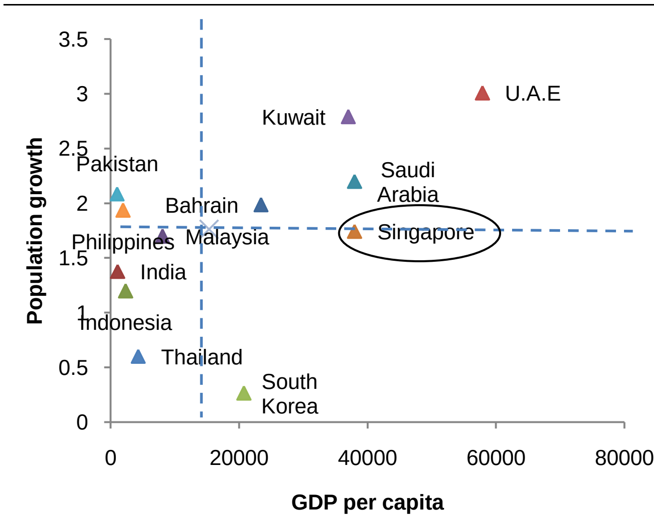
Chart 19: Current account % of GDP vs. fiscal balance % of GDP



Sources: IMF & MARC Economic Research

- Comparing the current account situation with Singapore's fiscal balance, the strong current account surplus relative to an even fiscal balance suggests excess savings and/or exporting of capital.
- Rebalancing the economy towards domestic demand could yield dividends in terms of maintaining growth momentum over the medium to long term.

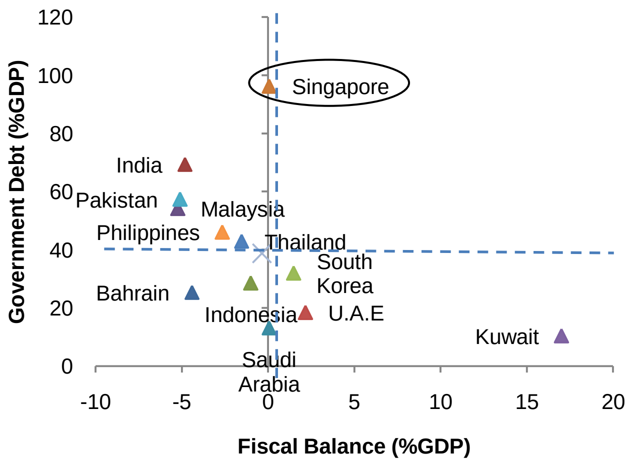
Chart 20: Population growth vs. GDP per capita



Sources: IMF & MARC Economic Research

- Singapore has among the highest GDP per capita levels in the world, a testament to sound macroeconomic policies and a deliberate policy of appreciating the SGD exchange rate. We expect to see some moderation in population growth rates, which have been driven over the past few years by the encouragement of inward emigration. This policy is set to be partially reversed due to political pressure at home.
- If there is a failure in Singapore's development model, it is with the distribution of wealth and income, which is among the worst in the region, and a prime contributor to rising social dissatisfaction with the PAP government. Nevertheless, PAP's grip on political legitimacy remains unthreatened.

Chart 21: Govt. debt % of GDP vs. fiscal balance % of GDP

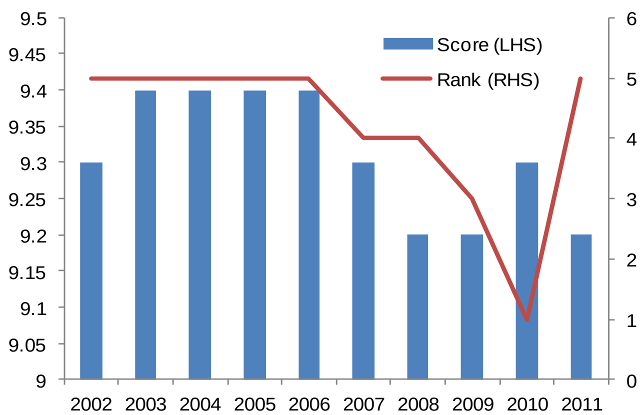


Sources: IMF & MARC Economic Research

- In the debt to balance matrix, Singapore's high government debt level is a misleading indicator, as much of the debt is used to finance Singapore's sovereign wealth fund while at the same time ensuring a steady flow of risk-free debt papers to aid the development of capital markets in the island state and to provide guaranteed returns for the CPF.

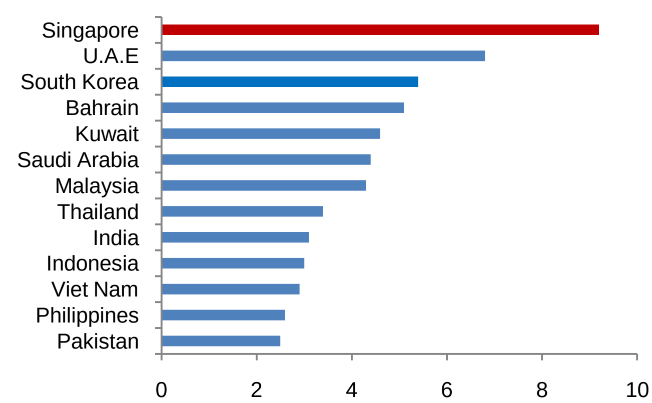
- Singapore's position is bolstered by a conservative approach to government finances, with all of the debt issued locally and a consistent record of achieving budget surpluses.

Chart 22: Corruption perception index



Source: Transparency International

Chart 23: Corruption perception index (the higher the better)



Source: World Bank

Singapore's government is well-known for being efficient and largely corruption free. Going by the Corruption Perception Index from Transparency International, Singapore is among the least corrupt governments in the world, consistently scoring within the top ten since 1995, and within the top five since 2001. The Index score has been above 9 for all but two years that the survey has been conducted.

Table 4: Summary of Macro Matrices

Matrix	Explanation
Government revenue and fiscal balance	Singapore is at the average of the 5-year median, but has considerable fiscal space due to a consistent budget surplus.
CPI and real GDP growth	Despite recent inflation experience, the 5-year median puts Singapore near the average.
Current account and fiscal balance	With a budget surplus and a strong current account surplus, Singapore is in the most favourable quadrant.
GDP per capita and population growth	Singapore has high GDP per capita, but we expect population growth to fall off.
Fiscal balance and government debt	Singapore's high gross debt level is somewhat misleading, as net debt is low and the government runs a surplus.
Control of corruption	Singapore ranks among the top in the world in terms of governance.

Appendix

Vital statistics - Singapore

	2006	2007	2008	2009	2010	2011	2012F
National accounts							
Growth (%)							
GDP	**8.8%**	**8.9%**	**1.7%**	**-1.0%**	**14.8%**	**4.9%**	**2.7%**
Supply side							
Manufacturing	11.9%	5.9%	-4.2%	-4.2%	29.7%	7.6%	n.a.
Construction	2.7%	16.3%	20.1%	17.1%	3.9%	2.6%	n.a.
Utilities	6.3%	3.9%	1.9%	-0.2%	6.7%	2.1%	n.a.
Other Goods Industries	4.0%	0.6%	-4.3%	-1.8%	-3.1%	3.0%	n.a.
Services Producing Industries	8.2%	9.5%	4.6%	-1.0%	11.1%	4.4%	n.a.
Demand side							
Total final consumption expenditure	5.0%	5.9%	3.9%	0.9%	7.4%	3.4%	3.0%
-Private final consumption expenditure	5.0%	6.8%	3.3%	0.1%	6.5%	4.1%	4.1%
-Government final consumption expenditure	5.0%	2.6%	6.4%	3.6%	11.0%	0.9%	3.8%
Gross fixed capital formation	13.6%	17.4%	13.0%	-2.9%	7.0%	3.3%	1.5%
Exports	10.9%	9.0%	4.7%	-7.8%	19.1%	2.6%	n.a.
Imports	11.3%	8.1%	9.5%	-11.1%	16.2%	2.4%	n.a.
Public finance (% of GDP) - Central government							
Total receipts	22.4%	22.6%	24.3%	19.1%	20.7%	24.2%	**22.8%**
-Tax revenue	12.4%	13.5%	14.0%	13.1%	13.1%	14.1%	n.a.
-Non tax revenue	10.0%	9.2%	10.3%	6.0%	7.6%	10.1%	n.a.
Total expenditure	13.4%	11.5%	15.3%	20.7%	15.7%	16.0%	**20.4%**
Fiscal balance	9.1%	11.1%	9.0%	-1.6%	5.0%	8.1%	**2.4%**
Inflation rate							
Manufactured Producer Price Index (MPPI)	2.4%	-1.6%	3.4%	-13.4%	1.7%	5.3%	n.a.
Consumer Price Index (CPI)	1.0%	2.1%	6.6%	0.6%	2.8%	5.2%	3.5%
Money, banking and policy rates							
M1 growth	13.4%	22.4%	18.4%	23.5%	20.3%	14.8%	n.a.
M2 growth	19.4%	13.4%	12.0%	11.3%	8.6%	10.0%	n.a.
M3 growth	19.1%	14.1%	11.6%	10.6%	8.3%	10.1%	n.a.
Bank credit growth (domestic credit)	6.6%	16.7%	14.2%	6.0%	11.1%	15.8%	n.a.
loan-to-deposit ratio (domestic credit)	94.8%	96.0%	99.2%	93.3%	93.6%	97.4%	n.a.
NPL Ratio (domestic banking units)	2.8%	1.5%	1.7%	2.4%	1.6%	1.2%	n.a.
3-month SIBOR	3.44%	2.38%	1.00%	0.69%	0.44%	0.38%	n.a.
Balance of payments (% of GDP)							
Current account	24.5%	25.8%	13.9%	16.2%	24.4%	21.9%	21.8%
Capital and financial account	-13.3%	-14.7%	-8.1%	-12.2%	-5.7%	-15.4%	n.a.
Overall balance	11.7%	10.9%	6.9%	6.1%	18.5%	6.6%	n.a.
International reserves (USD bn)	136.3	163.0	174.2	187.8	225.8	237.7	n.a.
Reserve-to-import (x)	55.2%	59.2%	55.5%	74.1%	68.3%	67.1%	n.a.
External debt (USD bn)	1665.0	1968.0	1883.4	1804.0	1761.9	1775.9	n.a.
External debt	452.5%	487.9%	495.3%	459.3%	416.8%	432.0%	n.a.
Debt service ratio (% Reserves)	501.4%	556.7%	531.8%	469.9%	447.2%	457.8%	n.a.
Development indicators							
Population (in mn)	44.0	45.9	48.4	49.9	50.8	51.8	n.a.
Population (growth)	3.2%	4.3%	5.5%	3.1%	1.8%	2.1%	n.a.
Human Development Index (HDI) - Very high human dev.	0.843	0.850	0.855	0.856	0.864	0.866	n.a.

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