



Recent Economic Developments in Singapore

08 Dec 2011

	2010		2011		
	Q4	Full Year	Q1	Q2	Q3
Real Sector					
Real GDP Growth, y-o-y %	12.0	14.5	9.4	1.0	6.1
Real GDP Growth, q-o-q saar %	3.9	-	27.9	-6.4	1.9
Index of Industrial Production, y-o-y %	25.7	29.7	15.8	-5.9	13.4
Non-oil Domestic Exports, y-o-y %	17.6	22.8	12.3	1.9	-1.1
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	2.2	2.2	1.9	2.1	2.0
CPI Inflation, y-o-y %	4.0	2.8	5.2	4.7	5.5
Wage Growth, y-o-y %	7.5	5.6	8.5	6.0	5.4

Highlights:

The Singapore economy recorded modest growth in Q3 2011

Domestic economic activity rose by 1.9% q-o-q saar (seasonally-adjusted annualised rate), supported by a pickup in biomedical manufacturing. However, key industries such as electronics, continued to contract alongside declining global demand.

Short-term global growth prospects are uncertain

Significant risks loom over the global economic outlook, particularly in the advanced economies, which are weighed down by sovereign debt issues in the Eurozone, as well as a weak labour market and fiscal consolidation in the US. Regional economies would also see slower growth, alongside the downturn in external demand.

Singapore's GDP growth will slow in 2012

Amidst subdued global economic conditions, Singapore's economic growth for 2012 is expected to be between 1 to 3%. In particular, the trade-related sectors are likely to face significant headwinds over the next few quarters.

Headline CPI inflation is expected to average between 2.5% and 3.5% in 2012

CPI inflation will remain elevated over the next few months, driven by the costs of accommodation and private road transport, before easing in H2 2012. Excluding these items, core inflation will remain broadly stable and is expected to come in below 2% from the second half of the year.

A. Macroeconomic Overview

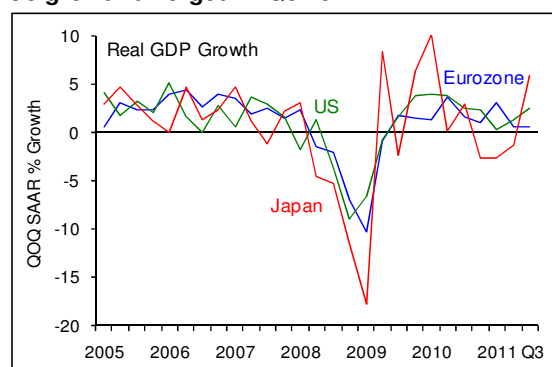
G3 economies turned in a mixed performance

In Q3 2011, the Eurozone continued to see weak growth while the US economy was boosted by stronger demand from the private sector. Meanwhile, Japan rebounded from the aftershocks of the Tohoku disaster in March.

Weighed down by the ongoing sovereign debt crisis, the Eurozone recorded another quarter of marginal growth in Q3 of just 0.6% q-o-q saar, lower than the 0.7% recorded in Q2. The region as a whole was supported by modest expansions in the core economies of Germany and France, where growth benefitted from a rebound in consumer spending as the effects of high oil prices faded. Elsewhere in the Eurozone, however, GDP largely contracted or came in flat — for example, the Netherlands and Portugal saw sequential declines in output, while Spain stagnated. Economic conditions in the other peripheral economies also remained weak.

In the US, growth climbed further to 2.0% q-o-q saar in Q3, from 1.3% in Q2. Private consumption was stronger than expected, increasing by 2.3% as spending on durable goods picked up. Gross fixed capital formation in the private sector also rose by 12.3% in Q3, its fastest pace since Q2 2010, with the boost coming mainly from non-residential investments. In addition, net exports made a small positive contribution to growth.

G3 growth diverged in Q3 2011.



Source: Datastream

The Japanese economy turned around in Q3 after three quarters of sequential contraction and grew by 6% q-o-q saar. Net exports and private consumption together contributed more than 2% points to GDP growth, as industrial output recovered briskly and consumers expended their pent-up demand on durable goods. Business investment picked up simultaneously, expanding by 4.4% q-o-q saar after shrinking by 1.9% in the previous quarter. However, public investment declined as the spurt in reconstruction spending from the first two supplementary budgets came to an end.

On the inflation front, prices in the US and Eurozone remained sticky, reflecting the continued pass-through of the previous run-up in energy and commodity prices. In the US, consumer price inflation rose to a post-crisis high of 3.9% y-o-y in September while core inflation reached 2.0%. Headline inflation in the Eurozone stayed high at 2.7% in Q3, close to its three-year high, but core inflation fell to 1.3% from 1.6% in Q2. On a m-o-m sa basis, however, headline inflationary pressures in the US and Eurozone have started to ease more recently. In Japan, both headline and core inflation turned slightly positive in Q3 after several quarters of deflation, due in part to higher energy import costs.

Regional economic growth mostly stayed firm

In Asia ex-Japan, the significant variation in economic performance across the region reflected a wide range of factors. While weakness in external demand and the tightening of monetary policy in the region over the past two years have dented growth in some countries, the continued strength in domestic demand and unwinding of supply-chain disruptions have bolstered growth in others.

Amongst the trade-driven economies in the region, Taiwan was most affected by weakness in US and Eurozone demand, with growth slipping to 3.4% y-o-y in Q3, from 4.5%. Taiwan has high exposure to the G2 markets both directly and indirectly through regional supply chains, and the subdued growth in export earnings had a knock-on impact on domestic demand, particularly business investment spending. Similarly, the Philippines economy grew by a weaker-than-expected 3.2% y-o-y in Q3, as a result of the country's heavy bias towards electronic exports and the importance of the US as an export destination. In comparison, Korea's export performance remained relatively resilient, helped by a cheaper won and a diversified export structure.

The other export-oriented economies fared well, cushioned by various country-specific factors. Thailand recorded slightly higher growth of 3.5% y-o-y in Q3 with the restoration of supply chain networks, although the improvement was more recently tempered by the floods. Meanwhile, Malaysia's economy expanded by a robust 5.8% y-o-y, driven by a sharp pickup in government spending as well as stronger household consumption.

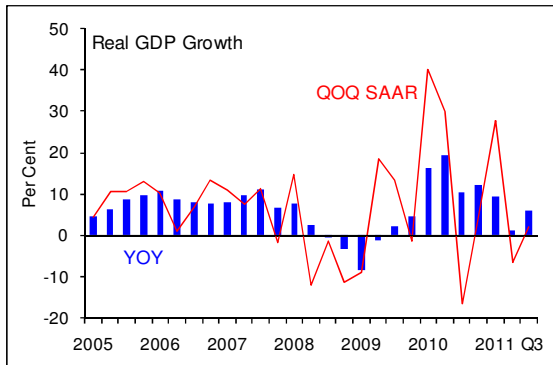
Growth in the larger economies in the region such as China and Indonesia remained firm in Q3, underpinned by resilience in domestic demand. These countries have registered steady expansions over the past few years, which led to rising household incomes and healthy corporate profits, in turn lifting private consumption and investment spending respectively. In China, economic activity in Q3 was also buoyed by public spending, particularly in infrastructure, although overall growth moderated to 9.1% y-o-y from 9.5% in Q2, due largely to a slowdown in exports.

Meanwhile, Indonesia grew at an average pace of 6.5% throughout the first three quarters of this year. Net exports contributed significantly to this sterling performance, as regional demand for commodities remained strong. In India, however, growth in domestic demand slackened with a tightening of monetary policy. Gross fixed capital formation contracted slightly in Q3, while private consumption growth decelerated. Nevertheless, overall GDP growth at 6.9% y-o-y in Q3 was held up by robust exports.

Inflationary pressures remained elevated in much of Asia ex-Japan, reflecting tight factor markets, which were exacerbated by high food and energy prices. Headline CPI inflation trended up to 6.0% in Q3, from 5.7% in Q2. However, with the recent moderation in global commodity and oil prices, the upward momentum of price increases has slowed noticeably in economies such as Indonesia and Korea.

Domestic economic activity registered a slight gain in Q3

Singapore's GDP edged up in Q3 2011.



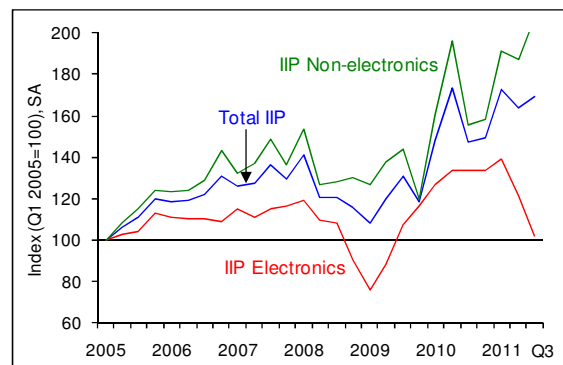
Following a 6.4% q-o-q saar contraction in Q2 2011, economic activity in Singapore rose marginally by 1.9% in Q3, supported largely by a rebound in the biomedical sector. Outside of the strong performance of the pharmaceutical segment, the rest of the economy remained weak.

While the effects of the supply-chain disruptions arising from the Tohoku earthquake had largely dissipated, the retraction in global demand, alongside the deterioration in global business and consumer confidence, led to a further slowing of domestic economic activity. The weakness was most evident in electronics-related manufacturing and trade-related services, while sentiment-driven segments of the financial sector were also impacted. Meanwhile, growth in the tourism-related industries slowed, alongside a dip in visitor arrivals in August and September.

i) Manufacturing Sector

Manufacturing activity rose by 11.7% q-o-q saar in Q3 2011, following a 23.6% decline in the preceding quarter. Growth was supported by pockets of strength within the non-electronics cluster, such as in the chemical and pharmaceutical industries. In comparison, output in the electronics cluster shrank by 50.4% on broad-based weakness across the IT supply chain, in line with the downturn in the global electronics industry. The precision engineering cluster also fell by 54.2%, as companies held back on machinery and equipment investments in Q3.

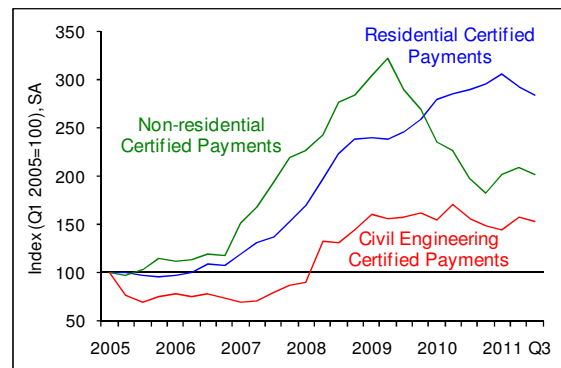
Output in the electronics cluster continued to falter.



ii) Construction Sector

The construction sector registered a decline of 11.8% q-o-q saar in Q3, after expanding by 13.3% in the preceding quarter. Residential construction continued to contract, while the non-residential construction segment fell as well, dragged down by a decline in public-sector works. Meanwhile, projects in the private non-residential segment such as the International Cruise Terminal continued to lend support in the third quarter.

Construction activity posted broad-based declines in Q3.



Source: EPG, MAS Estimates

iii) Services Sector

In services, activity in Q3 remained at levels similar to the preceding quarter, with the weakness in trade-related services in particular, weighing on the overall sector's performance. Tourism-related segments also exhibited some signs of softening as increases in visitor arrivals slowed to 2.9% q-o-q saar after three sequential quarters of double-digit growth. Correspondingly, the hotels & restaurants segment contracted by 2.6% q-o-q saar.

The financial services sector recorded marginal growth of 0.8% q-o-q saar in the third quarter of 2011, reflecting the continued turmoil in global financial markets. The sentiment-driven industries performed poorly, with the local bourse witnessing a sharp sell-off as the STI fell 14% q-o-q. Meanwhile, lending activities continued to grow, albeit at a slower pace. The expansion in domestic business loans was dampened by a decline in lending to the non-bank financial institutions and the manufacturing sector. Offshore loan growth was dragged down in part due to a sharp pullback in lending to the Americas.

B. Labour Market

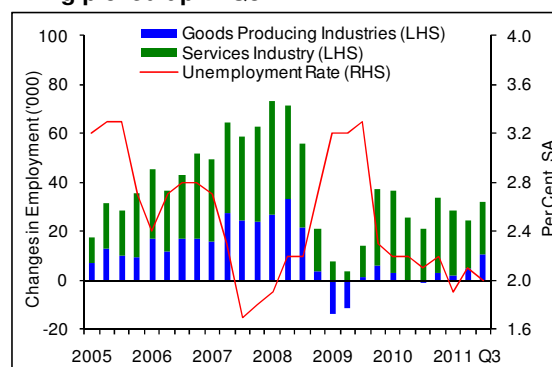
Employment gains ticked up

Preliminary estimates showed that total employment expanded by 32,300 in Q3 compared to 24,800 in the preceding quarter. The job gains of 3,500 in manufacturing and 6,600 in construction were higher, supported by activity in the aerospace and infrastructure-related segments respectively. Services employment gains of 21,900, in comparison, remained broadly similar to that in Q2.

The seasonally-adjusted overall unemployment rate fell from 2.1% in June to 2.0% in September while the resident unemployment rate edged down from 3.0% to 2.9% over the same period. Nevertheless, overall resident wage growth eased for the second consecutive quarter to 5.4% y-o-y in Q3 from 6.0% in Q2, partly on account of the high base last year.

The latest Business Expectation Surveys for manufacturing and services suggest that the overall employment outlook has deteriorated. A net-weighted 2% of manufacturers expect headcount to be lower in Q4 compared to Q3, which is the first negative reading since 2009. In particular, electronics, precision engineering and general manufacturing are likely to shed workers in Q4. Hiring expectations also fell in the services sector, especially in financial services. Nonetheless, a net-weighted 7% of these services firms still expect to hire in Q4, in view of the year-end festivities.

Hiring picked up in Q3.



C. Inflation

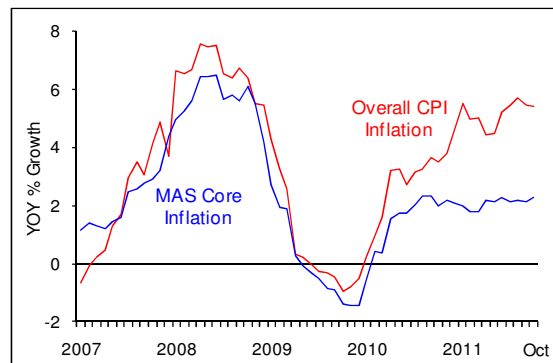
Accommodation and private road transport continued to push up CPI inflation

Headline CPI inflation increased from 4.7% in Q2 2011 to 5.5% in Q3, mainly due to higher contributions from the costs of accommodation and private road transport. Accommodation cost inflation rose as tenancy contracts were reset to higher rental

values amidst buoyant activity in the leasing market.¹ Car prices also increased sharply, given the surge in COE premiums in June and July.

MAS Core Inflation, which excludes the cost of accommodation and private road transport, was much lower at 2.2% in Q3, unchanged from the preceding quarter. Price increases for food and oil-related items picked up slightly in Q3 due to further pass-through of global commodity prices and rising domestic cost pressures. However, this was partly offset by a moderation in services cost inflation.

CPI inflation rose to 5.5% in Q3 but edged down in October.



In October 2011, headline CPI inflation was slightly lower at 5.4% due to a recent correction in COE premiums. Meanwhile, MAS Core Inflation rose slightly to 2.3%, on account of higher prices of prepared food and oil-related items.

CPI inflation will remain elevated for the rest of this year before easing in 2012, especially in the second half. The continued increase in housing rentals, due to a temporary shortage of completed dwellings, will cause the imputed rental cost of owner-occupied housing to rise at a fairly strong pace in the near term. Private road transport costs will also remain firm because of the tight COE supply. Hence, CPI inflation will average above 5% in Q4 2011 and close to 4% in H1 2012, before easing more significantly to about 2% in H2. MAS Core Inflation will be broadly stable for the next two quarters before edging down to below 2% from the second half of the year.

For the whole of 2011, CPI inflation is expected to be around 5% while MAS Core Inflation will be near to 2%. Costs of accommodation and private road transport, excluding petrol, will together contribute around two-thirds to CPI inflation, while commodity-related items will account for another one-fifth. In 2012, CPI inflation and MAS Core Inflation are forecast to be 2.5-3.5% and 1.5-2.0% respectively. Accommodation costs will comprise slightly more than half of CPI inflation, while the prices of food and services will each account for around one-fifth.

¹ Average rental value of the entire stock of leased properties is used in the computation of the cost of rented accommodation as well as the imputed cost of owner-occupied housing in the CPI basket.

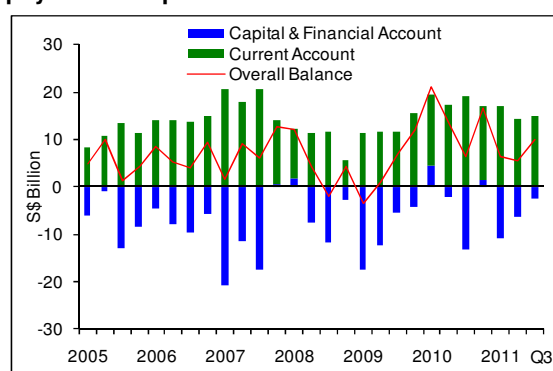
D. Balance of Payments

Smaller net capital outflows contributed to the widening of the overall balance of payments surplus

The overall balance of payments surplus increased to \$10.1 billion in Q3 2011, from \$5.5 billion in the preceding quarter. This primarily reflected a decline in net outflows in the capital and financial account, while the current account remained broadly unchanged from Q2.

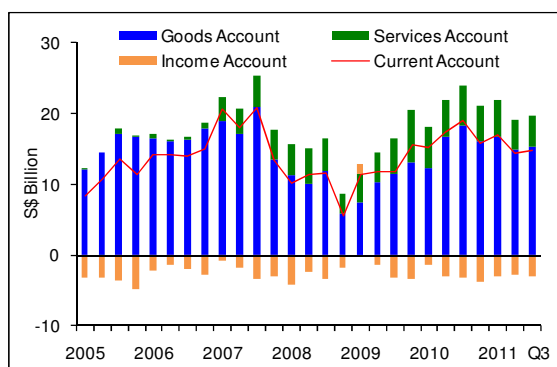
Gross capital inflows increased from \$47 billion in Q2 to \$60 billion in Q3. These inflows have been volatile, but have averaged \$50 billion (62% of GDP) per quarter since Q1 2011, exceeding the average of \$37 billion (59% of GDP) per quarter in the previous period of sharp inflows from Q1 2006 to Q1 2008. The inflows in the latest quarter were mainly driven by direct and 'other' investments while portfolio inflows turned positive.

Capital inflows increased more than outflows, contributing to a higher overall balance of payments surplus.



'Other investment' gross inflows comprise both bank and non-bank private sector flows. The former accounted for the bulk of the increase in Q3, largely reflecting DBU borrowings from the ACU.

The rise in gross capital inflows was driven by direct and other investments.

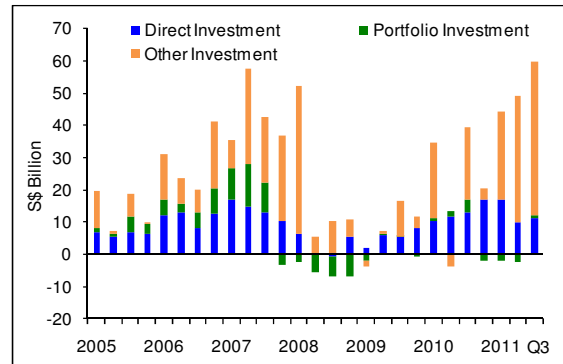


While gross inflows to Singapore are large, there have also been sizable gross outflows, given its role as an international financial centre, as well as the large presence of companies with international operations in the economy. Singapore typically records a net capital outflow position in its balance of payments.

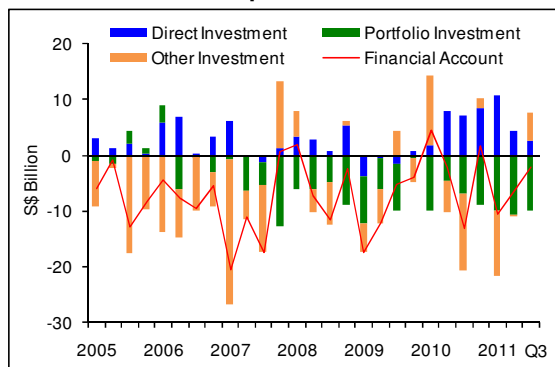
Gross capital outflows rose from \$54 billion in Q2 to \$62 billion in the third quarter. A significant portion of these was underpinned by 'other investment', which in turn reflect residents' deposits or lending overseas.

Overall, net outflow from the financial account declined from \$6.2 billion in Q2 to \$2.1 billion in Q3, as the 'other investment' component turned from a small net outflow of \$0.1 billion to a positive net inflow of \$5.2 billion, while net portfolio investment outflows also moderated. In comparison, the net inflow of direct investment to Singapore fell again in the third quarter, as outward direct investments by residents rose by more than the increase in foreign investments into the country.

On a net basis, the financial account recorded an outflow of \$2.1 billion.



The slightly larger current account surplus was due to a rise in net exports.



The current account surplus widened slightly to \$15 billion in Q3 2011 from \$14 billion in the previous quarter. There was an increase in the goods surplus as exports rose more than imports. The services surplus also rose marginally, reflecting higher receipts from transportation and other business services and a fall in net payments for travel services. Meanwhile, the income balance remained largely unchanged at \$2.9 billion.

E. Outlook

Uncertainty hangs over G3 growth prospects

The near- to medium-term outlook for the advanced economies has become more uncertain in the last three months. The risk of a recession in the Eurozone has risen and financial conditions have worsened discernibly. While short-term prospects for the US economy have improved somewhat, the recent setback in budgetary negotiations was a pointed reminder that difficult fiscal issues have yet to be resolved, which could undermine confidence in the economy. In Japan, the weakness in G2 demand will dampen growth, although this could be partially offset by reconstruction spending.

The Eurozone is susceptible to renewed bouts of financial volatility, as doubts remain over whether the measures taken to date are sufficient to contain the sovereign debt crisis and strengthen the banking system. The crisis has spread to the core European countries of Italy and France as sovereign bond yields increased sharply. The situation in the region remains highly uncertain and how events unfold from this point depends crucially on the policy measures taken by European leaders over the next few months. In addition, the new requirements to bolster the Core Tier 1 capital ratios of Eurozone banks by June 2012 could result in extensive deleveraging and force banks to cut back on loans, which will hamper any recovery in the economy. With forward-looking indicators such as the composite PMI for the manufacturing and services sectors hinting at a mild contraction in the next two quarters, the Eurozone economy is expected to register weak growth of 1.6% this year and come in almost flat at 0.4% in 2012.

In the US, economic indicators point to a continuation of moderate growth in Q4. Retail sales volumes and industrial production proved resilient in October, while the latest November PMI readings for the manufacturing and non-manufacturing sectors remained above the 50 level. These developments are in turn reflected in an improved labour market performance — private payrolls increased by 140,000 in November, while the unemployment rate declined to 8.6%, the lowest since March 2009. Nevertheless, the economy remains vulnerable to a slowdown in 2012 as the sustainability of the present uplift in consumer spending, financed via a drawdown of savings, is in question. Meanwhile, the failure of the Congressional “Super Committee” to agree on a deficit reduction plan has added further uncertainty to the outlook. Growth is currently expected to come in at 1.8% in 2011 and 2.1% in 2012, with risks tilted to the downside.

Following the post-disaster rebound, the pace of Japan's economic recovery is expected to slow. The September BOJ Tankan survey shows that business conditions would continue to improve in Q4, but at a weaker pace than in the previous quarter. On the external front, export growth will be pulled down by the weak US and Eurozone economies, as well as the strong yen. In addition, the disruptions to the auto industry caused by the floods in Thailand could curtail vehicle production in Japan and further constrain growth in the near term. Nevertheless, spending on reconstruction works is set to rise in 2012 with the recent passage of the third supplementary budget, which earmarked about ¥6 trillion (or about 1.3% of GDP) for rebuilding purposes. Overall, the economy is expected to expand by a modest 2.1% in 2012, following a small contraction this year.

Headline inflation in the US and the Eurozone should decline in the quarters ahead, due to continued weakness in economic activity and the lagged impact of lower oil and commodity prices. In Japan, considerable slack remains in the economy even though aggregate demand has been recovering, and price pressures are expected to remain muted.

Table 1: Consensus Forecasts of GDP Growth

	2010	Forecast	
		2011	2012
Percent			
Industrial			
US	3.0	1.8	2.1
Japan	4.1	-0.4	2.1
Eurozone	1.8	1.6	0.4
UK	1.8	1.0	1.1
NIE			
Hong Kong	7.0	5.1	3.9
Korea	6.2	3.7	3.8
Taiwan	10.7	4.4	3.5
ASEAN			
Indonesia	6.1	6.4	6.1
Malaysia	7.2	4.4	4.1
Thailand	7.8	2.6	4.3
Philippines	7.6	4.2	4.5
China	10.4	9.1	8.5
India *	8.7	7.4	7.7

Source: CEIC and Consensus Economics, Nov 2011

* Fiscal year starting 1 April for 2011 and 2012 forecasts.

The global downturn will dampen regional economic growth

The protracted weakness in the advanced economies is expected to spill over into the rest of Asia through the trade and financial channels. However, in the absence of a credit event or severe financial dislocation in the Eurozone, domestic demand in the larger economies of the region will help to cushion some of these negative shocks. The latest consensus forecast for the region was revised down to 5.9% in 2011 and 5.7% in 2012.

The domestic-oriented economies of China and Indonesia will be buffered by consumption and infrastructure spending, thus providing some support to the region as a whole. GDP growth in China is expected to hold up at around 8% next year while Indonesia is projected to expand at a solid 6.1%. While the latest decline in the Chinese manufacturing PMI index to below the 50 level in November portends a near-term contraction in industrial production, the government has indicated that it is prepared to take steps to stabilise growth as inflationary pressures wane. Over the past few weeks, selective credit easing measures have been introduced to support small companies and in late November, the PBOC cut the banks' reserve requirement ratio for the first time in three years.

Countries which have strong trade links with China such as Korea and Taiwan will therefore be shielded to some extent from the vicissitudes of G3 growth. Meanwhile, reconstruction demand from Japan will boost exports of building materials from the resource-rich ASEAN countries, especially Indonesia and Malaysia. However, electronics producers such as Malaysia and the Philippines will be negatively affected by the current downswing in the global electronics cycle.

Beyond the trade channel, financial stresses in the advanced economies can potentially also have an adverse impact on Asia ex-Japan. For example, a sudden reversal of capital flows to the regional economies can cause a tightening in financial conditions and crimp economic growth. Nevertheless, some of these effects can be offset by increased lending by non-European institutions. Regional banks, in particular, can help to ameliorate a credit crunch arising from a pullback in European banks' cross-border lending in this part of the world.

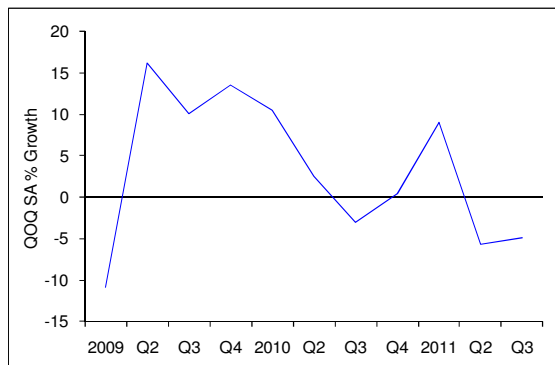
Policy-makers in the region have some room for monetary and fiscal easing, having moved into a tightening mode over the last year or so. On the fiscal policy front, for instance, both Malaysia and the Philippines have recently announced measures to stimulate growth. Even though near-term growth in Thailand will be significantly curtailed by the severe floods in large areas of the country, the forthcoming expansionary fiscal measures and reconstruction spending will cap the downside risks to growth to some extent.

Price pressures in Asia ex-Japan are likely to moderate alongside the weakening external environment and stabilising commodity prices. The expected easing of headline CPI inflation later this year and into 2012 will provide further scope for monetary easing by the region's central banks. Nevertheless, some upside risks to inflation remain. For instance, unexpected supply-side shocks to food prices could impart upward pressure on inflation in the region, given the substantial weight of food in regional CPI baskets. In particular, there is a risk that rice prices could trend higher, driven by in part by the severe floods in Thailand.

Global IT demand will remain lacklustre

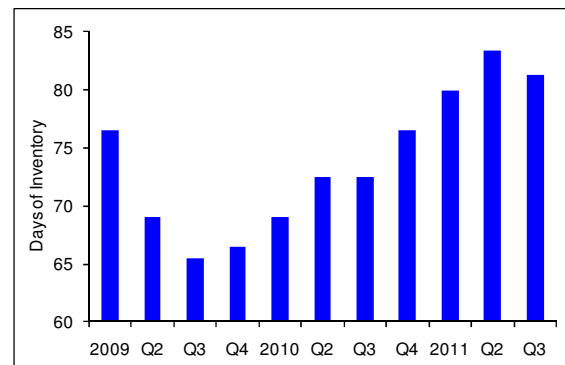
Amidst continued uncertainties in the external environment, near-term prospects of the global IT industry remain weak. In the midstream semiconductor segment, which saw a buildup of inventories to record levels in Q2 2011, global chip stockpiles remain elevated in Q3 at 81.3 days of inventory (DOI).² Correspondingly, global chip sales in the third quarter contracted a further 5.0% q-o-q sa, following a 5.7% decline in Q2 on slower orders across the Americas, Europe and Asia Pacific. These factors prompted Gartner to significantly downgrade its global chips sales forecast for 2011 from 5.1% to -0.1% in September.

Global chip sales has declined for two sequential quarters.



Source: Semiconductor Industry Association and EPG, MAS estimates

Global semiconductor inventories remained at elevated levels.



Source: IHS iSuppli

Concomitantly, final demand for IT products softened in both the advanced economies and the emerging market segments. IT investment from the US corporate sector moderated in Q3, in line with more restrained spending amidst the broader economic weakness. On the retail front, US and China IT sales also decelerated. The slowdown in end demand could in turn lead to a more protracted adjustment in the midstream semiconductor segment, dampening production over the next two quarters. Assuming that the reduction in inventory continues at the

² According to the latest IHS iSuppli Inventory Insider Report, Issue 5, 2011.

current rate, it would take at least three more quarters before inventory levels revert to their historical average of around 75 days. As such, the global IT industry could consolidate further in the next two quarters before stabilising sometime in mid-2012.

Overall, activity in the global IT sector is expected to remain subdued in the coming quarters, as sluggish global electronics demand and high inventory levels continue to weigh on output. As such, key industry players are forecasting global chip sales to grow at a mild 3-5% on average next year.

The domestic economy is expected to expand by 1 to 3% in 2012

The Singapore economy weakened over the last six months, weighed down by supply-side disruptions arising from the Japan earthquake and, more recently, by faltering global demand. Although domestic economic activity recorded a modest turnaround in Q3 2011 following a sharp contraction in the previous quarter, activity in key sectors of the economy, such as electronics, has continued to wane.

Weak growth prospects in the developed economies and concerns about fiscal sustainability in the Eurozone continue to cloud the near-term horizon. Global financial markets remain jittery, and fresh bouts of volatility could affect business and consumer confidence further. As such, global demand is likely to remain sluggish in the immediate quarters ahead. Against this backdrop, activity in the domestic manufacturing and trade-related sectors will remain subdued. Growth in financial services is also likely to remain lacklustre, as the sentiment-driven industries continue to perform poorly and overall lending activities slow. The tourism-related cluster could also record more moderate growth.

Against the strong cyclical headwinds in the industrialised economies, domestic economic activity is expected to moderate further in Q4, bringing full-year growth for 2011 to around 5%. With the weakness in the external environment likely to persist, the Singapore economy will expand more slowly in 2012, recording growth of 1-3%. While some pickup is envisioned in the second half of the year, the underlying recovery momentum is likely to be modest, capped by the structural fragilities in some of Singapore's key trading partners. Should there be a severe financial crisis in the developed economies, the Singapore economy will be more adversely affected.

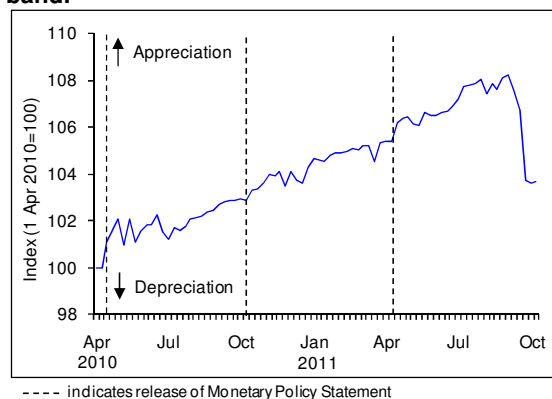
F. Macroeconomic Policies

A calibrated adjustment in the policy stance to ensure price stability in the medium term

i) Monetary Policy

Following a broad-based decline in economic activity in Q2, Singapore recorded a modest expansion of 1.9% q-o-q saar in Q3. Although the supply-side effects of the March 2011 Tohoku earthquake have abated, final demand in Singapore's key export markets have slowed. The immediate outlook remains clouded, given persistent uncertainty stemming from a potential sovereign debt crisis in the Eurozone.

In October 2011, MAS kept the S\$NEER policy band on a modest and gradual appreciation path, but with a reduced slope of the policy band.



As such, Singapore's electronics manufacturing and other trade-related activities will continue to be adversely affected. Meanwhile, headline CPI has remained elevated given sharp increases in imputed housing rentals and COE premiums; core inflation has been stable. As economic activity slows and output approaches its potential over 2012, core inflationary pressures should gradually ease.

Accordingly, MAS kept the S\$NEER policy band on a modest and gradual appreciation path but with a reduced slope in October 2011. There was no change to the width of the band and the level at which it was centered. This latest move will continue to anchor inflation expectations and ensure price stability over the medium term, while providing support to economic growth in an uncertain and volatile external environment.

ii) Fiscal Policy

The Singapore economy registered record GDP growth of 14.5% in 2010. As such, the key measures of the "Resilience Package", put in place in 2009 to help businesses and households tide over the economic downturn, have been fully phased out as of January this year. The overall budget position for FY2010 came in at a surplus of \$1.0 billion (0.3% of GDP), a reversal from the deficit of \$3.0 billion projected in 2010. This was largely due to higher revenues from the better-than-expected performance of the economy.

Budget 2011, announced on 18 February, builds on the medium-term policy agenda initiated by Budget 2010, with additional initiatives aimed at restructuring the Singapore economy in order to enhance productivity over the medium to long term. These measures represent continued steps towards implementing the recommendations charted out by the Economic Strategies Committee (ESC) to support the economy's growth in the next phase of its development. They can be broadly divided into three categories: first, the government has committed \$2.1 billion this year in the form of tax benefits, grants and training subsidies to help companies and workers to innovate and deepen their skills and expertise. Second, measures to enable companies to develop growth capabilities, commercialise their R&D and expand abroad were enhanced. Third, the government introduced initiatives to improve the softer aspects of the quality of life in Singapore and make growth more inclusive. These measures have been especially geared towards lower-skilled workers, the elderly as well as the lower-to-middle income households. At the same time, Budget 2011 also contained one-off, targeted measures to assist firms facing rising business costs and to help households preserve purchasing power amidst higher inflation. These include rebates on income taxes, service and conservancy charges, and utility bills.

For FY2011, the government is expecting the budget balance as a percentage of GDP to be close to zero, with a small overall budget surplus amounting to around \$0.1 billion.

Summary of Fiscal Position

	FY 2009		FY 2010		FY 2011 Budgeted	
	\$billion	% of GDP	\$billion	% of GDP	\$billion	% of GDP
Operating Revenue	39.5	14.2	46.1	14.7	48.1	14.2
Total Expenditure	41.9	15.1	45.3	14.5	47.1	13.9
Operating Expenditure	30.9	11.1	33.3	10.6	35.9	10.6
Development Expenditure	11.0	4.0	12.1	3.9	11.2	3.3
Primary Surplus/Deficit (-)	-2.3	-0.8	0.7	0.2	1.0	0.3
Add: NII/NIR Contribution	7.0	2.5	7.4	2.3	7.8	2.3
Less: Special Transfers	5.5	2.0	7.1	2.3	8.7	2.6
Budget Surplus/Deficit (-)	-0.8	-0.3	1.0	0.3	0.1	0.0

Note: Figures may not tally due to rounding
Source: Ministry of Finance

Selected Indicators

GENERAL INDICATORS, 2010

Land Area (Sq km)	712.4	Literacy Rate* (%)	95.9
Total Population ('000), 2011	5,183.7	Real Per Capita GDP (US\$)	41,109
Labour Force ('000)	3,135.9	Gross National Savings (% of GNI)	47.8
Resident Labour Force Participation Rate (%), 2011	66.1		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2010

Manufacturing	22.2
Financial Services	11.9
Business Services	14.0
Construction	4.5
Transport & Storage	8.6
Information & Communications	3.6
Wholesale & Retail Trade	16.5
Hotels & Restaurants	2.2

COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2010

Private Consumption	37.9
Public Consumption	10.7
Private Gross Fixed Capital Formation	21.0
Public Gross Fixed Capital Formation	4.0
Increase in Stocks	-1.2
Net Exports of Goods & Services	28.1
Statistical Discrepancy	-0.5

MAJOR EXPORT DESTINATIONS (% SHARE), 2010

Total Exports (S\$ Billion)	478.8
Malaysia	11.9
Hong Kong	11.7
China	10.3
Indonesia	9.4
USA	6.4
ASEAN	30.3
NIEs	19.4
EU	9.8

MAJOR ORIGINS OF IMPORTS (% SHARE), 2010

Total Imports (S\$ Billion)	423.2
Malaysia	11.7
US	11.2
China	10.8
Japan	7.9
Indonesia	5.4
ASEAN	24.0
NIEs	12.7
EU	12.3

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2010

Domestic Exports (S\$ Billion)	248.6
Mineral Fuels	30.2
Electronics	26.1
Chemicals	17.5
Machinery & Transport Equipment (ex. Electronics)	12.0
Manufactured Articles	7.7
Manufactured Goods	2.8

MAJOR IMPORTS BY COMMODITY (% SHARE), 2010

Total Imports (S\$ Billion)	423.2
Electronics	29.1
Mineral Fuels	27.3
Machinery & Transport Equipment (ex. Electronics)	17.4
Manufactured Articles	7.0
Chemicals	6.8
Manufactured Goods	6.3

Source: IE Singapore

OVERALL ECONOMY	2009	2010	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Sep-11	Oct-11
GDP at current prices (S\$ bil)	266.7	303.7	62.1	64.5	68.3	71.8	73.0	76.0	76.4	78.2	82.3	79.4	81.2	na	na
GDP (US\$ bil)	183.3	222.7	41.1	43.8	47.5	51.5	52.0	54.7	56.3	60.0	64.4	64.0	66.2	na	na
Real GDP Growth (YOY % change)	-0.8	14.5	-8.4	-1.3	2.1	4.6	16.4	19.4	10.5	12.0	9.4	1.0	6.1	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	-8.9	18.6	13.3	-1.5	39.9	29.7	-16.7	3.9	27.9	-6.4	1.9	na	na
By Sector (YOY % change):															
Manufacturing ^{1/}	-4.2	29.7	-23.8	-0.5	7.5	2.4	37.2	45.2	13.7	25.5	16.8	-5.6	14.2	11.3	24.4
Electronics ^{2/}	-8.5	35.7	-36.6	-19.4	-1.2	28.0	66.4	52.8	26.1	14.7	9.0	-9.7	-23.6	-27.8	-20.3
Non-electronics ^{2/}	-2.2	27.2	-18.4	8.3	11.8	-8.0	27.6	42.6	8.3	31.9	18.7	-4.5	32.3	31.3	44.8
Financial Services	4.3	12.2	-4.0	3.0	6.3	12.2	18.9	9.9	9.7	10.9	11.3	9.9	10.5	na	na
Business Services	4.3	5.9	5.7	3.6	3.5	4.4	6.1	7.1	6.0	4.5	4.5	2.1	1.7	na	na
Construction	17.1	6.1	25.1	18.5	11.4	14.9	9.7	11.4	6.7	-2.0	2.4	1.5	0.3	na	na
Transport & Storage	-9.0	6.0	-12.0	-11.9	-10.1	-1.6	6.6	8.5	5.2	3.8	4.9	4.4	4.2	na	na
Information & Communications	1.0	2.9	1.6	1.0	0.8	0.7	2.2	2.9	3.4	2.9	3.3	2.3	1.4	na	na
Wholesale & Retail Trade	-6.0	15.1	-12.0	-9.6	-5.2	3.5	16.9	18.9	14.4	10.8	5.0	0.2	-0.2	na	na
Hotels & Restaurants	-1.6	8.8	-4.2	-4.2	-0.1	2.1	7.2	12.5	8.2	7.5	8.1	5.3	5.6	na	na
By Expenditure Component (YOY % change):															
Consumption	0.9	5.7	-3.3	-0.9	3.4	4.9	7.7	5.6	3.7	5.8	4.3	5.9	6.0	na	na
Private	0.2	4.2	-2.8	-2.9	2.3	4.4	6.1	5.2	1.5	4.3	4.7	5.9	7.1	na	na
Public	3.5	11.0	-4.6	10.2	7.7	6.6	12.0	7.6	11.8	11.3	3.2	5.7	2.3	na	na
Gross Fixed Capital Formation	-2.9	5.1	-12.3	-5.3	0.2	7.3	11.1	-1.7	5.8	5.7	-7.7	9.5	6.3	na	na
Private	-5.6	3.5	-16.4	-7.8	-1.5	5.2	9.6	-4.6	4.0	5.8	-12.5	9.0	5.0	na	na
Public	18.5	15.0	21.0	18.8	12.8	21.1	19.4	19.7	17.2	5.2	17.4	12.5	14.0	na	na
External Demand	-8.1	19.2	-18.0	-13.3	-7.7	7.9	21.7	24.4	19.8	12.1	8.4	1.9	-0.3	na	na
TRADE															
Total Exports, fob (YOY % change)	-18.0	22.4	-27.8	-25.4	-20.0	4.9	28.2	29.1	20.0	14.5	13.4	6.7	4.8	7.1	2.0
Non-Oil Domestic Exports	-10.6	22.8	-25.6	-14.5	-7.8	8.2	23.1	27.6	23.7	17.6	12.3	1.9	-1.1	-4.6	-16.2
Re-Exports	-16.6	20.5	-24.1	-23.8	-17.9	1.9	24.5	24.6	20.9	13.0	7.2	2.6	-5.7	1.2	4.9
Total Imports, cif (YOY % change)	-21.0	18.8	-27.6	-28.4	-22.8	-2.7	25.5	26.4	15.6	9.7	10.2	8.4	6.2	6.8	8.6
WAGE-PRICE INDICATORS															
Unemployment Rate (SA %)	3.0	2.2	3.2	3.2	3.3	2.3	2.2	2.2	2.1	2.2	1.9	2.1	2.0	na	na
Average Nominal Wages (S\$ per month)	3,872	4,089	4,155	3,609	3,562	4,160	4,310	3,819	3,754	4,474	4,677	4,048	3,956	na	na
Consumer Price Index Inflation (YOY % change)	0.6	2.8	3.4	0.2	-0.3	-0.8	0.9	3.1	3.4	4.0	5.2	4.7	5.5	5.5	5.4
MAS Core Inflation (YOY % change)	0.0	1.5	2.2	0.0	-0.7	-1.4	0.1	1.7	2.2	2.1	1.9	2.2	2.2	2.1	2.3
FINANCIAL INDICATORS ^{3/}															
S\$ Exchange Rate Against: (end-period)															
US Dollar	1.4034	1.2875	1.5194	1.4498	1.4141	1.4034	1.4028	1.4013	1.3175	1.2875	1.2617	1.2292	1.3003	1.3003	1.2502
100 Japanese Yen	1.5194	1.5798	1.5450	1.5115	1.5752	1.5194	1.5016	1.5822	1.5760	1.5798	1.5248	1.5284	1.6975	1.6975	1.5787
Euro	2.0163	1.7120	2.0153	2.0464	2.0674	2.0163	1.8789	1.7113	1.7919	1.7120	1.7828	1.7838	1.7593	1.7593	1.7518
Interest Rates (end-period, % p.a.)															
3-month Fixed Deposit Rate	0.25	0.19	0.32	0.27	0.26	0.25	0.22	0.21	0.20	0.19	0.18	0.18	0.16	0.16	0.15
3-month Domestic Interbank Rate	0.69	0.44	0.69	0.69	0.69	0.69	0.69	0.69	0.56	0.50	0.44	0.44	0.25	0.25	0.44
Prime Lending Rate	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38
Money Supply (end-period)															
Broad Money, M2 (YOY % change)	11.3	8.6	11.5	12.9	11.3	11.3	8.8	7.3	8.2	8.6	8.7	10.7	11.3	11.3	10.3
Straits Times Index (end-period)	2,897.6	3,190.0	1,700.0	2,333.1	2,672.6	2,897.6	2,887.5	2,835.5	3,097.6	3,190.0	3,105.9	3,120.4	2,675.2	2,675.2	2,855.8
YOY % change	64.5	10.1	-43.5	-20.8	13.3	64.5	69.9	21.5	15.9	10.1	7.6	10.0	-13.6	-13.6	-9.1
GOVERNMENT BUDGET ^{4/}															
Operating Revenue (S\$ mil)	37,872	44,581	8,756	10,000	10,621	8,495	10,430	11,912	12,395	9,845	11,909	13,572	14,113	na	na
Total Expenditure (S\$ mil)	40,483	44,049	13,073	7,874	9,177	10,359	14,509	7,888	10,360	11,293	15,798	8,593	11,160	na	na
Operating Expenditure	29,871	32,755	10,395	5,269	6,695	7,512	11,433	5,346	7,328	8,648	11,948	6,483	8,165	na	na
Development Expenditure	10,612	11,295	2,678	2,604	2,482	2,847	3,077	2,542	3,032	2,644	3,850	2,111	2,995	na	na
Primary Surplus/Deficit (S\$ mil)	-2,611	532	-4,317	2,126	1,444	-1,864	-4,079	4,024	2,035	-1,447	-3,889	4,979	2,953	na	na
% of GDP	-1.0	0.2	-7.0	3.3	2.1	-2.6	-5.6	5.3	2.7	-1.9	-4.7	6.3	3.6	na	na
BALANCE OF PAYMENTS															
Current Account Balance (% of GDP)	19.0	22.2	18.5	18.4	17.3	21.7	20.8	22.9	25.0	20.1	20.7	18.2	18.3	na	na
Goods Balance	15.9	20.9	12.2	16.0	16.9	18.2	16.9	22.0	24.1	20.6	20.3	18.7	18.8	na	na
Services Balance	7.7	7.1	6.3	6.6	7.3	10.3	7.8	6.9	7.3	6.5	6.4	5.5	5.6	na	na
Income Balance	-2.4	-3.7	2.5	-2.0	-4.8	-4.7	-1.9	-3.9	-4.2	-4.8	-3.7	-3.6	-3.5	na	na
Current Transfers	-2.2	-2.2	-2.4	-2.2	-2.1	-2.1	-2.1	-2.1	-2.2	-2.2	-2.3	-2.4	-2.5	na	na
Capital & Fin Account Balance (% of GDP)	-14.6	-3.1	-28.0	-19.1	-7.8	-5.6	6.2	-2.9	-17.4	1.9	-12.9	-8.0	-2.7	na	na
Financial Account Balance (% of GDP)	-14.5	-3.0	-27.8	-18.9	-7.6	-5.5	6.3	-2.7	-17.2	2.0	-12.8	-7.8	-2.6	na	na
Direct Investment	-1.7	8.5	-5.8	-0.6	-2.2	1.2	2.5	10.7	9.5	10.9	13.3	5.7	3.2	na	na
Portfolio Investment	-8.5	-9.8	-13.7	-8.5	-12.0	-0.6	-13.5	-5.8	-8.9	-11.2	-11.9	-13.4	-12.2	na	na
Other Investment	-4.3	-1.6	-8.4	-9.7	6.5	-6.1	17.3	-7.6	-17.8	2.3	-14.1	-0.2	6.4	na	na
Overall Balance (% of GDP)	6.2	18.9	-5.8	1.6	10.3	16.7	28.8	18.0	8.2	21.1	7.6	6.9	12.4	na	na
Official Foreign Reserves (US\$ mil) ^{5/}	187,809	225,754	166,251	173,191	182,039	187,809	197,112	199,960	214,662	225,754	234,205	242,287	233,621	233,621	245,420
Months of Imports	9.2	8.7	6.8	7.8	9.0	9.2	8.9	8.5	8.6	8.7	8.6	8.5	7.9	7.9	8.2

Source:

^{1/} Monthly data from Index of Industrial Production, EDB

^{2/} Data from Index of Industrial Production, EDB

^{3/} Straits Times Index from SGX. All other indicators from MAS.

^{4/} Ministry of Finance

^{5/} MAS

na: Not available