



Singapore

Commentary

■ **Political outlook** - The People's Action Party (PAP), which has ruled since 1959, won 67% of the votes in the parliamentary elections held in May 2006. Its dominance of the political system reflects the fact that the main opposition parties are weak and fragmented, and the ruling party is known as being economically and fiscally conservative. Politicians are focussed on restructuring the economy, in order to compete with lower cost producing countries in the region. Planned structural reforms include adopting free-trade agreements, changing the tax system to reduce business costs and liberalising the banking, utilities and telecoms sectors.

■ **Economic growth** - Economic growth is expected to fall to 5.1% in 2008, from 7.5% in 2007, as global demand for electronics and pharmaceuticals – the main drivers of the economy – weakens. Industrial production is expected to slow down to 5.3% in 2008, following 2 years of robust expansion. However consumer spending growth has picked up, even after the government raised the goods and services tax by 2pp to 7% in July 2007 and is forecast to remain strong at 4.2% over the next two years. The unemployment rate is expected to ease to 3.3% in 2008, despite a rise in the labour force participation rate rises. A stronger labour market is expected to exert upward pressure on price inflation. Although the export boom is expected to lose momentum, the current account surplus will remain substantial at 21.5% of gdp in 2008. Oil prices may also push up inflation.

■ **Inflation and prices** - Strong domestic demand pressures and solid earnings growth are expected to drive consumer price inflation to 1.8% in 2008. Earnings inflation is expected to rise in response, to nearly 5% from 4.6% in 2007.

■ **Interest rates and Forex** - The central bank is expected to remain committed to its current policy of modest and gradual appreciation of the Singapore dollar as a means of keeping inflation in check. The currency is used to control monetary conditions as opposed to interest rates. Against the US dollar, the Singapore dollar is forecast to end 2007 at S\$1.44, appreciating to S\$1.43 by end-2008. Higher interest rates will help the currency in 2008 but will push economic growth lower so allowing price inflation to fall back.

Key economic and market indicators

Annual % change	2006	2007f	2008f	2009f
Gdp growth	7.9	7.5	5.1	4.7
Industrial production	11.6	6.1	5.3	4.0
Consumer spending	2.5	4.5	4.2	4.2
Consumer price inflation	1.0	1.6	1.8	1.4
Average earnings (whole economy)	3.2	4.6	4.9	5.0
Unemployment rate (% average)	3.6	3.5	3.3	2.9
Current account balance (% gdp)	27.5	27.9	21.5	21.0
Budget balance (% gdp)	10.0	6.4	5.5	5.1
Short-term interest rate (3m interbank, % average)	3.5	2.8	3.5	4.0
Exchange rate (US\$/S\$, end year)	1.53	1.44	1.43	1.43

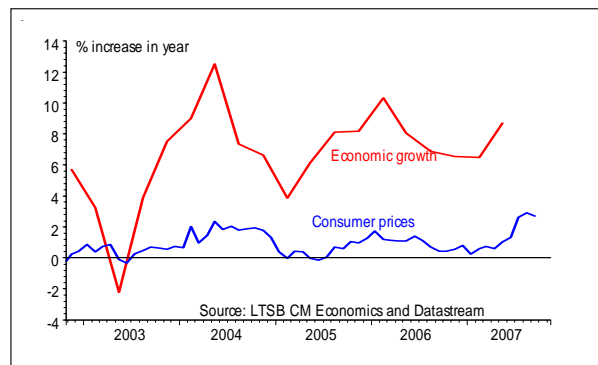
Country profile

- President: S.R Nathan
- Prime Minister: Mr Lee Hsien Loong
- Parliament: The People's Action Party
- Next election: By 2011 (presidential)
- Nominal GDP: US \$321.3bn (2006)
- Population: 4.38m (mid-2006)
- Exchange rate: US\$/ S\$ rate - 1.52 (Oct. 2007)
- Interest rates: 3m interbank rate - 2.50% (Oct. 2007)
- 10-year government bond yield - 2.81% (Oct.2007)
- Rating investment grade: Aaa (Moody's), AAA (S&P)

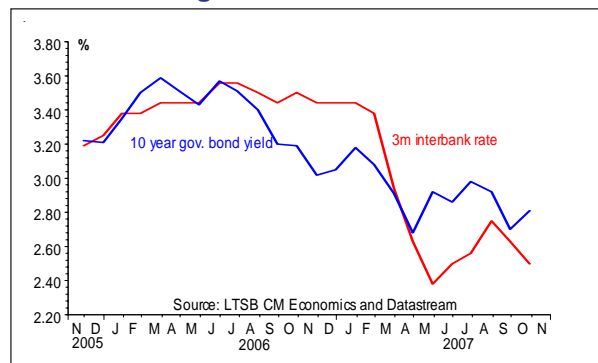
Trade statistics (2004)

Main export markets	Main suppliers
Malaysia 15.2%	Malaysia 15.2%
United States 13.0%	United States 12.6%
Hong Kong 9.8%	Japan 11.7%
Key country exports	Key imports
Electric machinery & equip 29.9%	Electric machinery 27.6%
Chemicals 11.6%	Mineral fuels 13.6%

Growth and inflation



Short and long term interest rates



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