



## 15th Singapore Economic Roundtable

Monday, 23 May 2011

Dunearn Ballroom Three

Level 1, Raffles Town Club

# Macro-Economic Outlook for Singapore and Implications for Policy

15<sup>th</sup> Singapore Economic Roundtable, May 2011

Wu Kun Lung

Economist

South-East Asia and India Economics

65 6212 3418

[kunlung.wu@credit-suisse.com](mailto:kunlung.wu@credit-suisse.com)

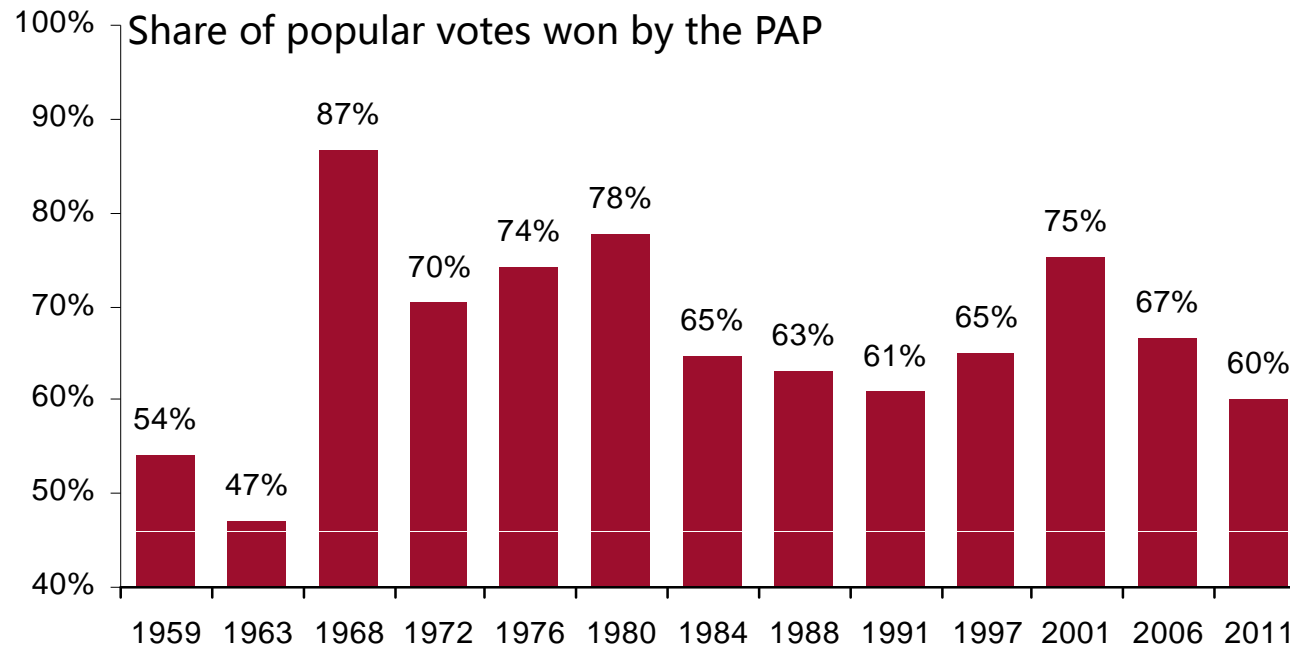
ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE IN THE DISCLOSURE APPENDIX. FOR OTHER IMPORTANT DISCLOSURES, PLEASE REFER TO <https://firesearchdisclosure.credit-suisse.com>.

**Medium term outlook:  
Transition to softer, friendlier  
growth**

# Outline

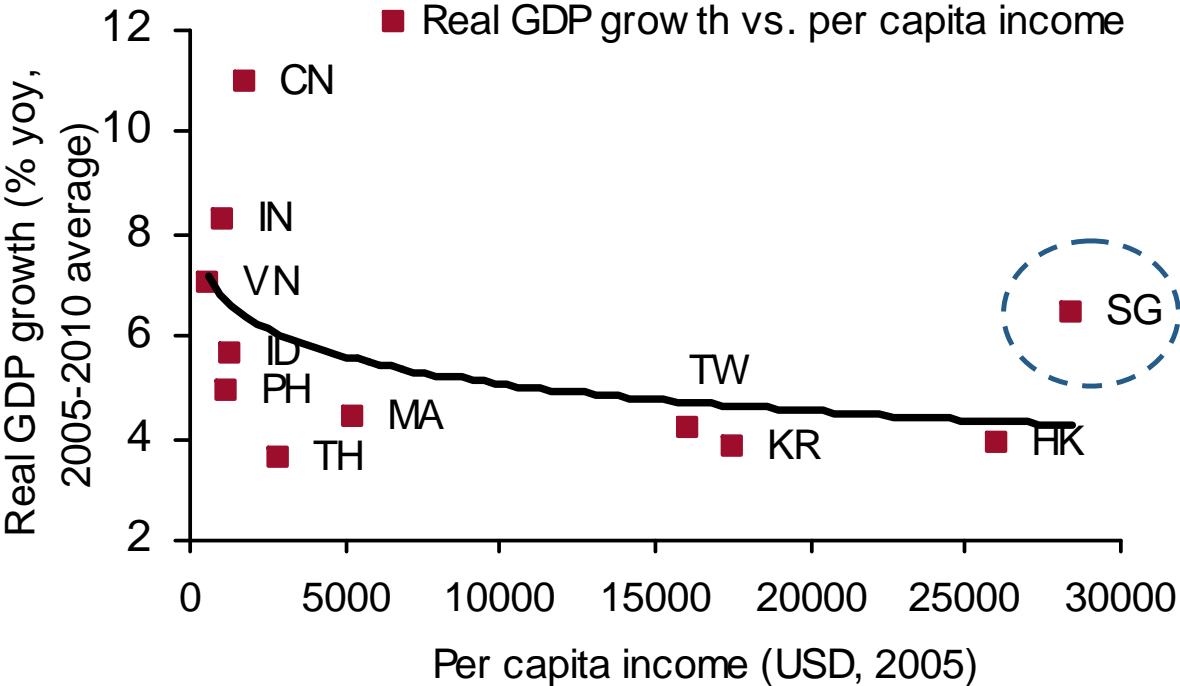
- Factors that contributed to Singapore' s impressive growth
- Problems that rapid growth brings
- Whether productivity can solve these problems
- Policy implications

# Ruling party lost ground



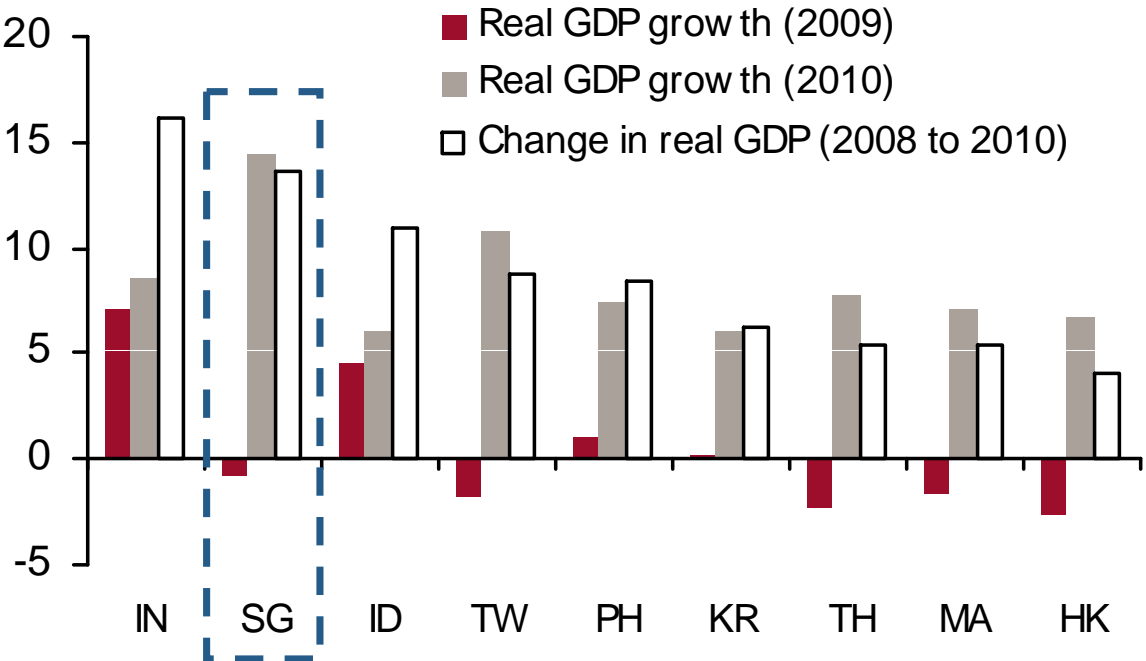
Source: Singapore Elections Department, Credit Suisse

# Despite impressive growth



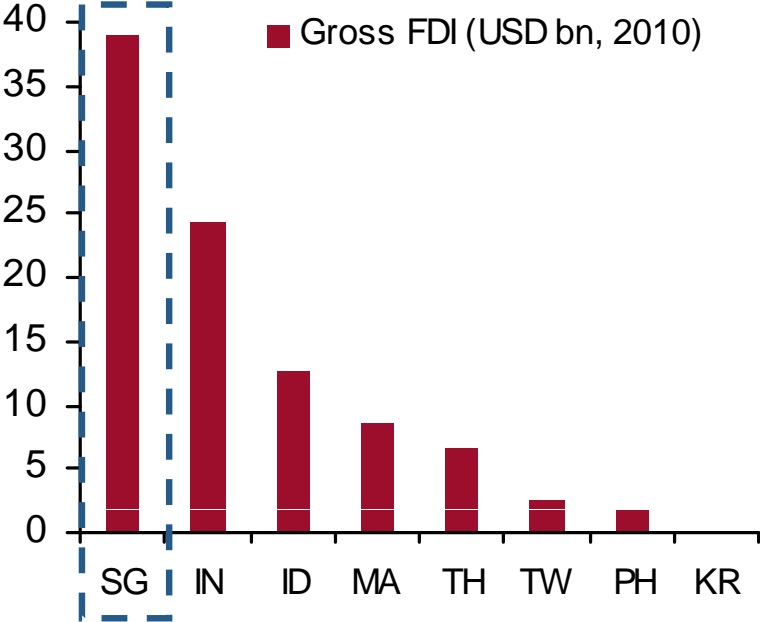
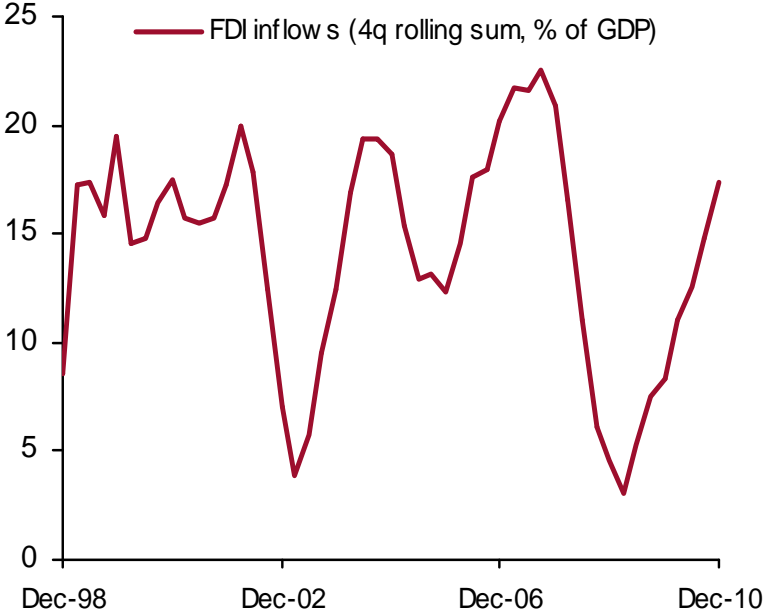
Source: CEIC, Credit Suisse

# Strong growth was not just a cyclical rebound



Source: CEIC, Credit Suisse

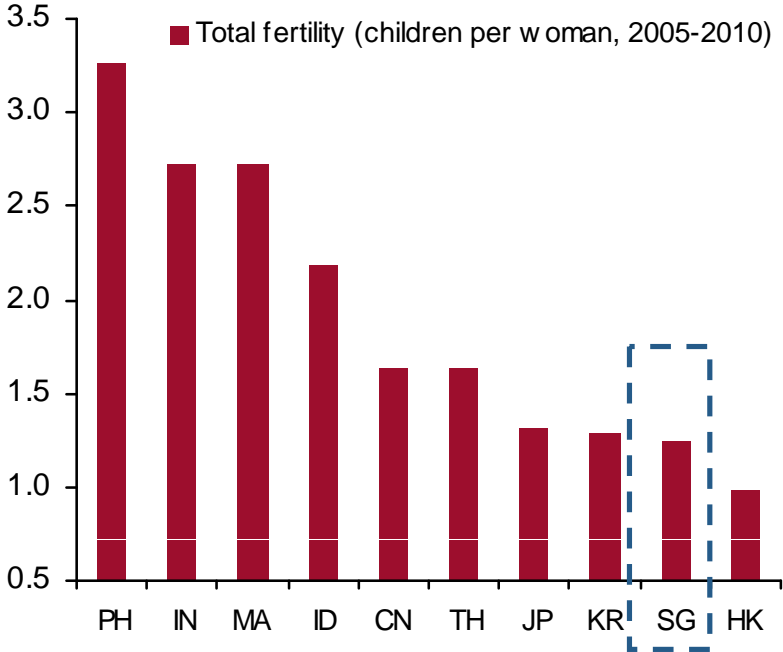
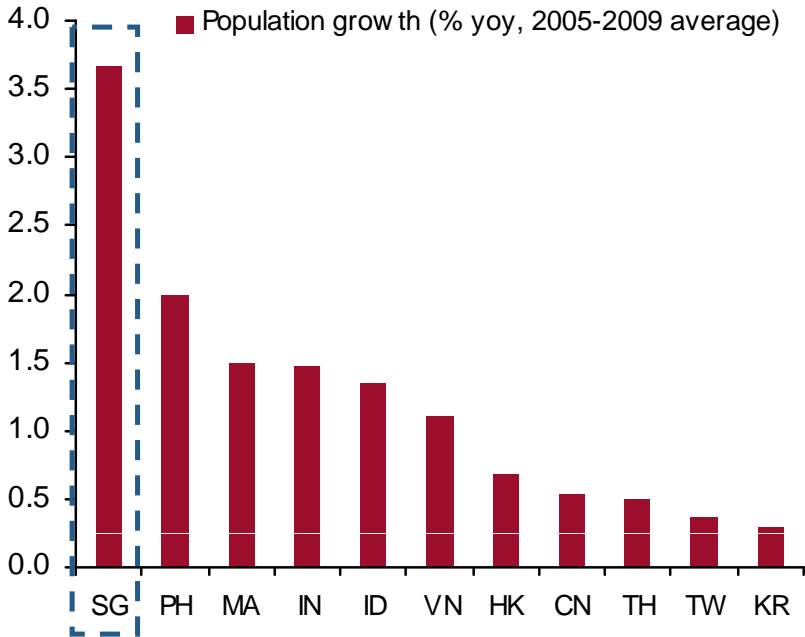
# Growth made possible by its openness to trade and FDI



Source: CEIC, Credit Suisse

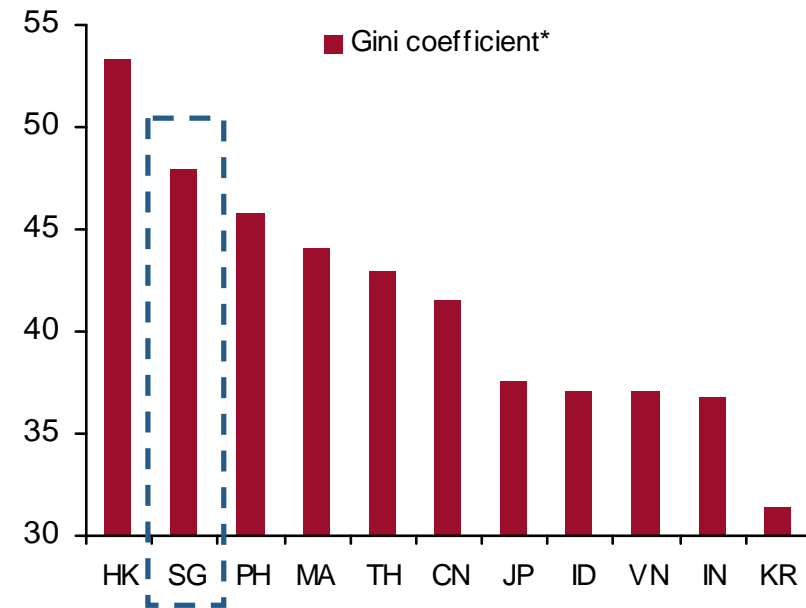
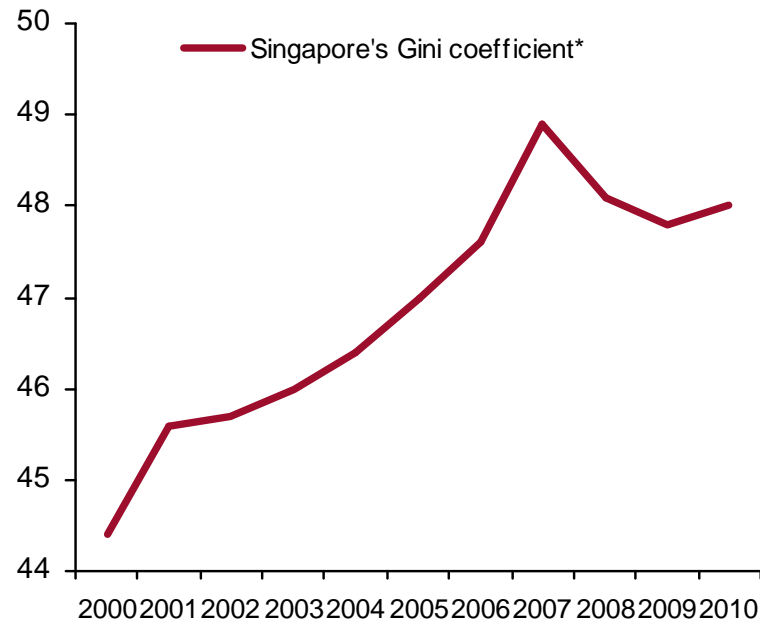


# And fast population growth



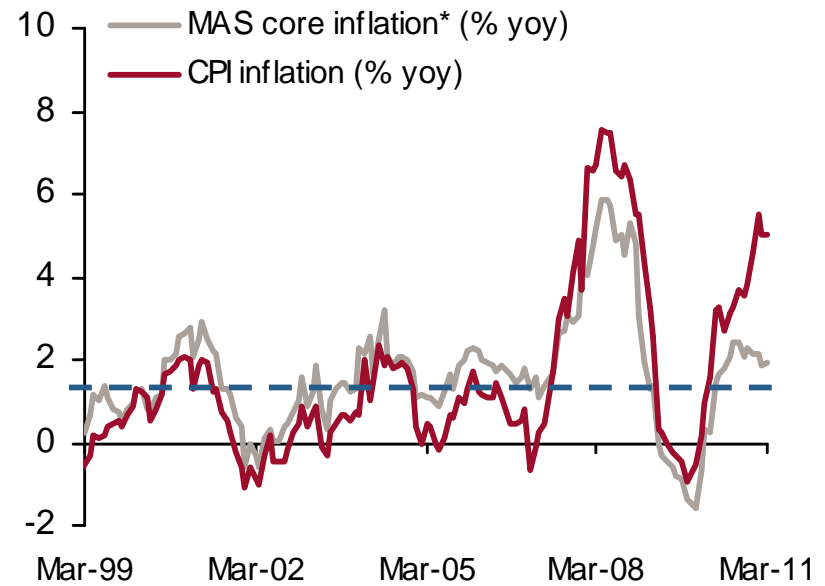
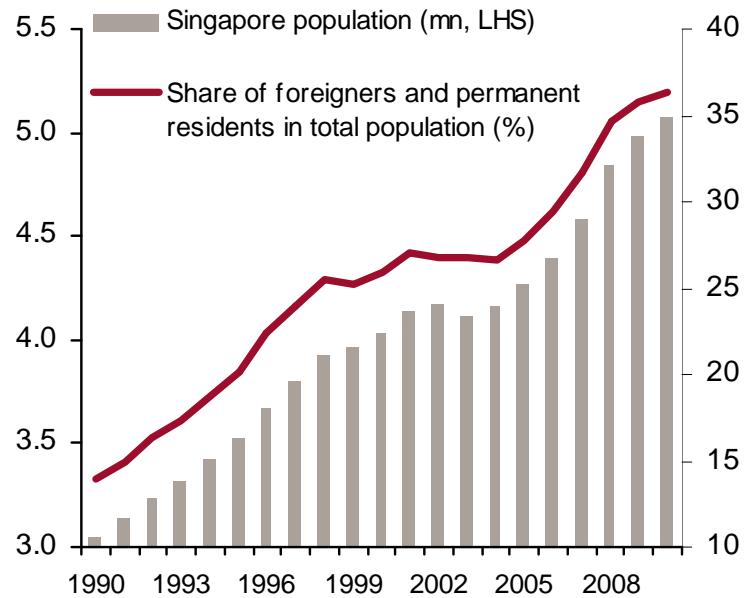
Source: UN, CEIC, Credit Suisse

# Rapid growth comes with a price (I)



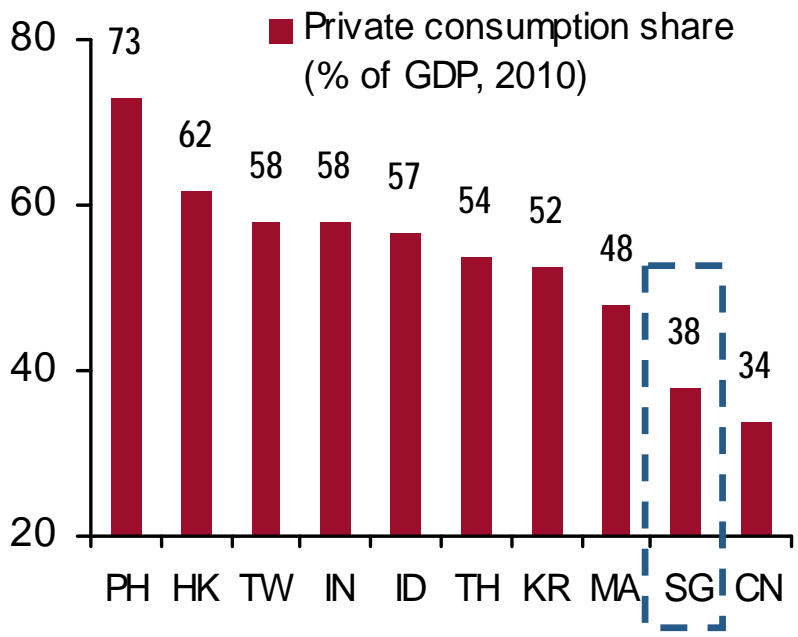
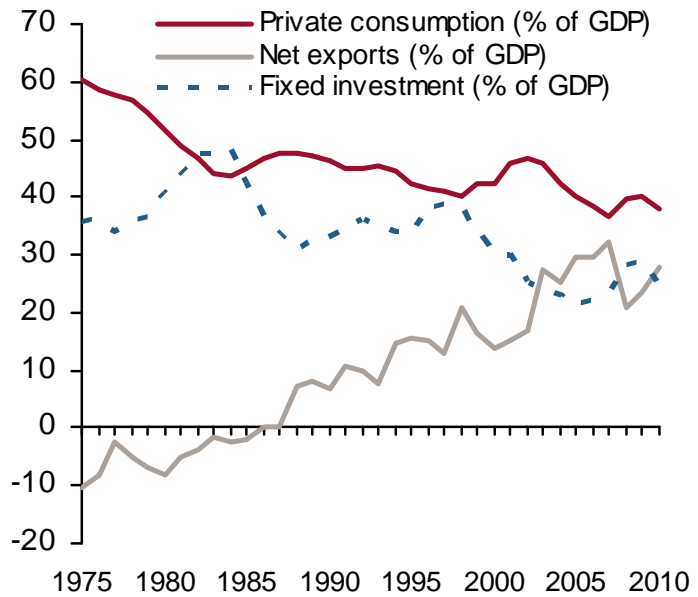
Source: CIA, Department of Statistics, CEIC, Credit Suisse. \*This index measures the degree of inequality in the distribution of family income in a country. The Gini index can vary between 0 and 100. A value of 0 represents absolute equality and 100 absolute inequality.

## Rapid growth comes with a price (II)



Source: CEIC, Credit Suisse. \*CPI excluding accommodation and private road transport.

# Rapid growth comes with a price (III)



Source: CEIC, Department of Statistics, Credit Suisse

## Policy options and the costs involved

- Tighter immigration controls
  - Trade-offs between growth, inflation, and population growth
  - Temporary mismatch in the supply-demand situation in the property sector
  - Old age dependency ratio might rise at a faster pace
- Increase welfare spending

Can these trade-offs be avoided by boosting productivity growth?

## Productivity growth not necessarily a cure-all

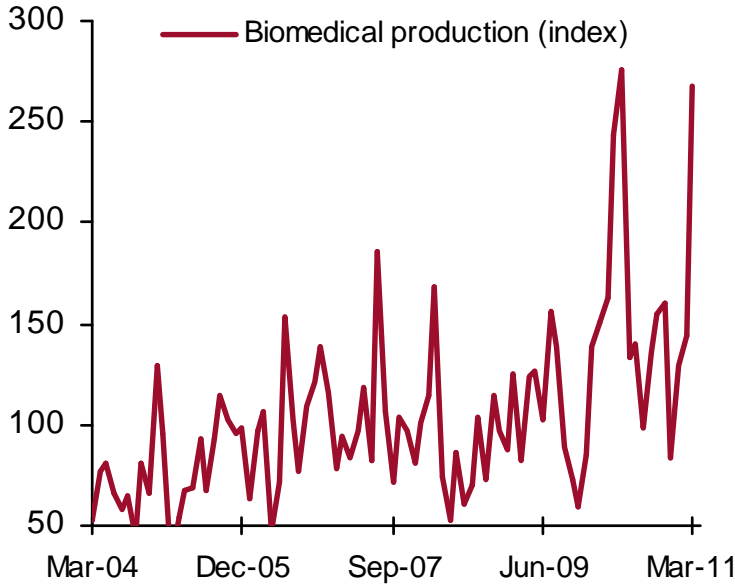
- Labor productivity surged 10.8% in 2010
- It is important to understand where the rise came from
- Ways to boost labor productivity growth:
  - 1) Upgrade the skills of the labor force
  - 2) Use higher quality capital inputs (e.g., better equipment and machinery)
  - 3) Shift production toward more capital- and technology-intensive activities
  - 4) Raise total factor productivity
- We think a large part of the rise in labor productivity in 2010 came from 3)

# Sector expansions spurred labor productivity growth (I)



Source: CEIC, Credit Suisse

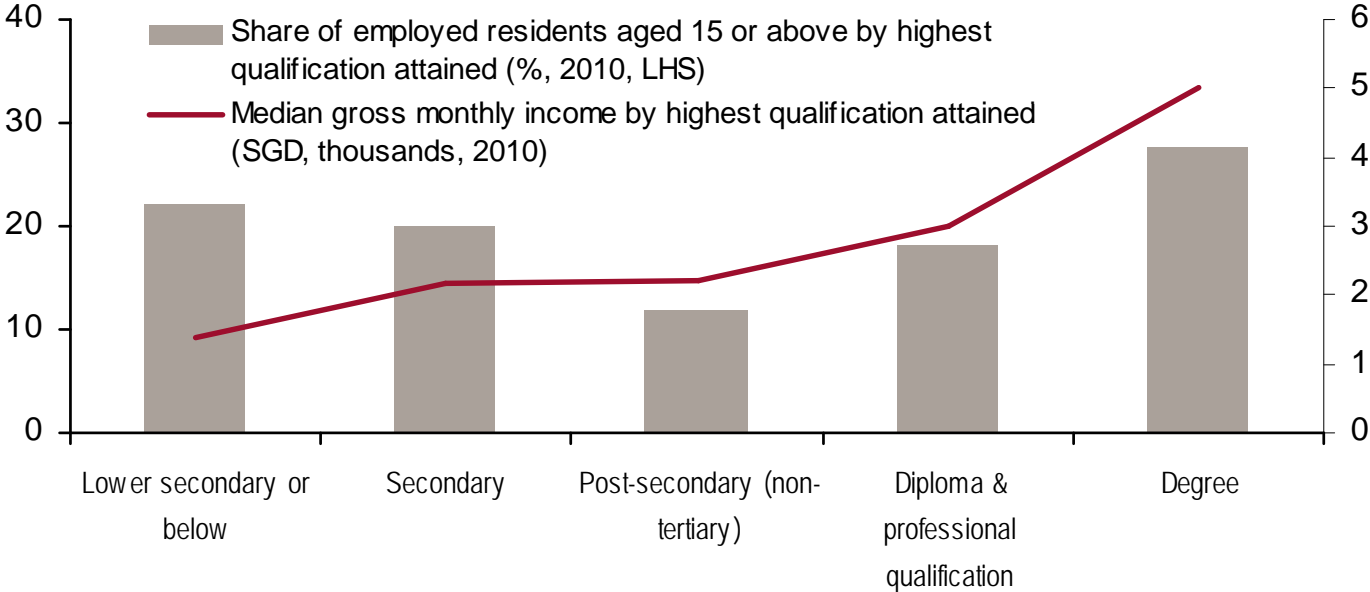
# Sector expansions spurred labor productivity growth (II)



Source: CEIC, Credit Suisse



# Income gap might widen further



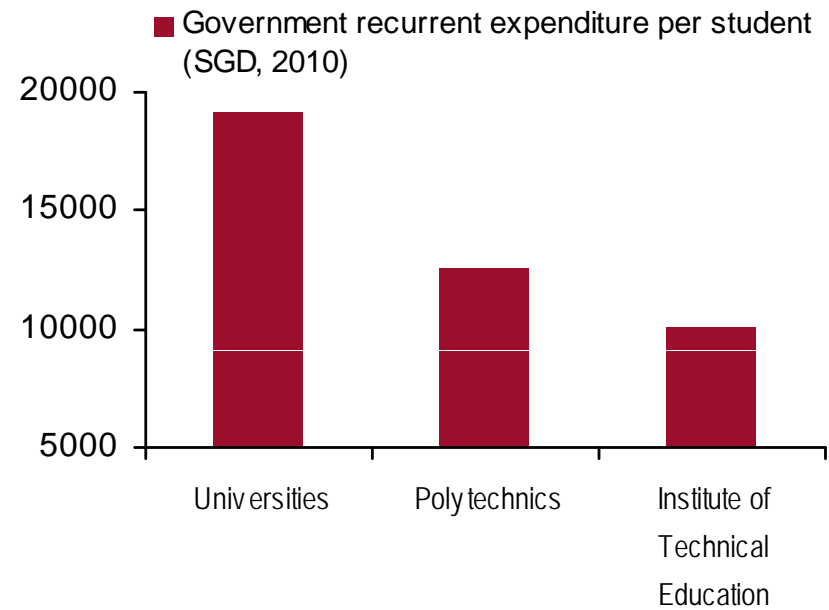
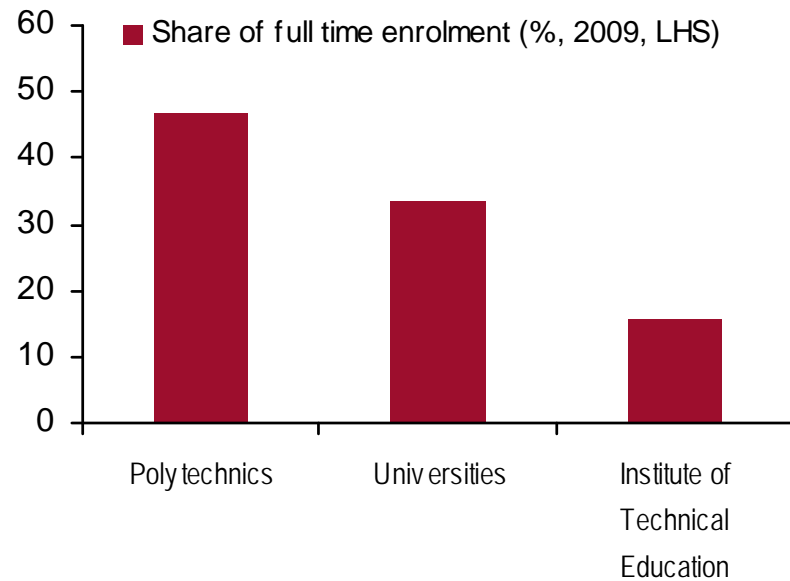
Source: Ministry of Manpower, Credit Suisse

Improvement in labor quality is likely to be gradual

Two ways to raise labor quality:

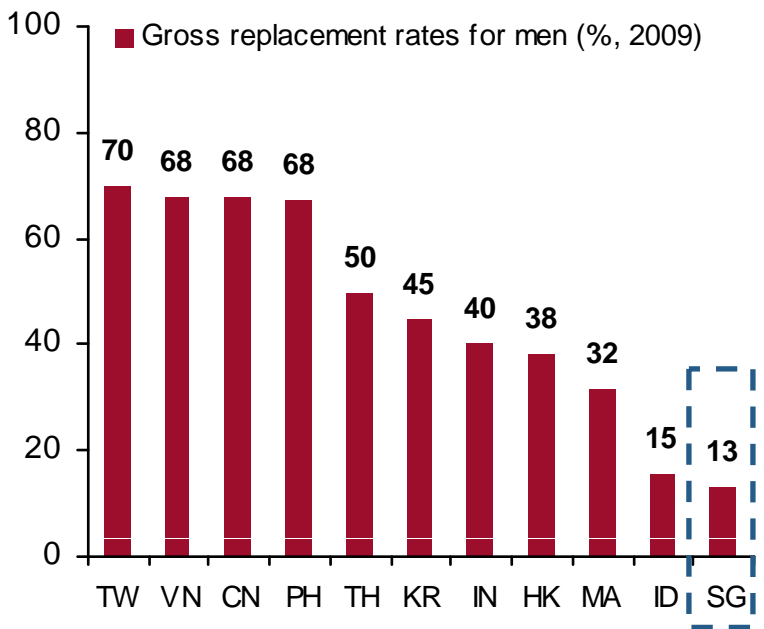
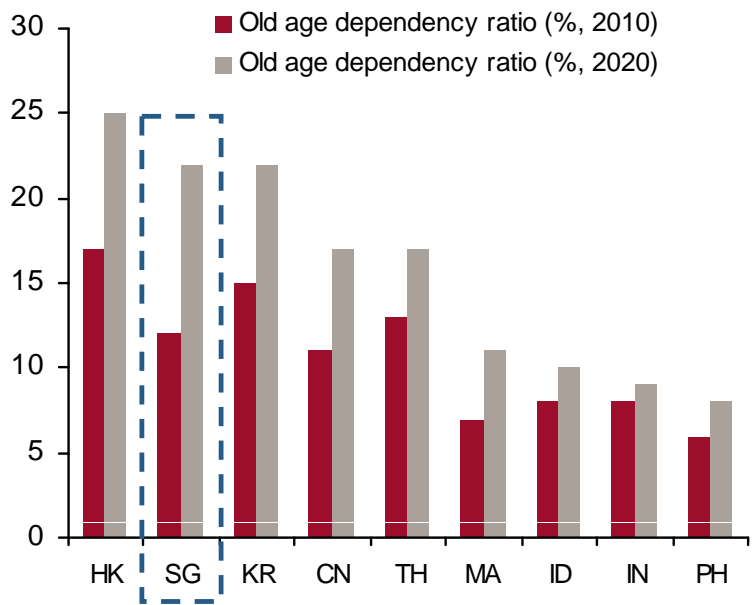
- 1) Import more skilled workers. But this might widen the income gap and raise the cost of living
- 2) Boost the skills of residents to help raise their incomes. But this process is likely to be gradual

# Low-skilled people risk being left behind



Source: Ministry of Education, Credit Suisse

# Older workers are especially vulnerable



Source: UN, OECD, Credit Suisse.

Old age dependency ratio: share of people aged 65 or above to those aged 15-64. Gross replacement rates: Pension benefits as a share of individual lifetime average earnings, under the assumption that workers earn the same percentage of economy-wide average earnings through their career.

## Policy implications

- Gradual changes
- Slower GDP growth over next 3-5 years
  - FX appreciation
  - More selective FDI inflows
  - Slower population growth
- More focus on the lower skilled, improve education access
- Gradually increase spending to help older people

# Growth slow to 3%-5% over the medium term



Source: CEIC, Credit Suisse estimates

# Disclosure Appendix

## Analyst Certification

I, Kun Lung Wu, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

## Disclaimer

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse AG operating under its investment banking division. For more information on our structure, please use the following link: [https://www.credit-suisse.com/who\\_we\\_are/en/](https://www.credit-suisse.com/who_we_are/en/).

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Mexico by Banco Credit Suisse (Mexico) S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Securities Investment Advisers Association; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG; Singapore Branch, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This research may not conform to Canadian disclosure requirements.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative of Credit Suisse Securities (USA) LLC in the U.S.

This material is not for distribution to retail clients and is directed exclusively at Credit Suisse's market professional and institutional clients. Recipients who are not market professional or institutional investor clients of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality.

Copyright © 2011 CREDIT SUISSE GROUP AG and/or its affiliates. All rights reserved.

**Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.**

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay purchase price only.

## Report by Mr Wu Kun Lung