Analysts see tinkering of S'pore economic model
Govt expected to pay more attention to inclusive growth

Chuang Peck Ming
The Business Times, 10 May 2011

Analysts watching the outcome of the General Election (GE) see no change in Singapore's economic model - Prime Minister Lee Hsien Loong has already said so - as the People's Action Party sets up the next government, but they are expecting enough tinkering to affect business.

Despite record economic growth and low unemployment, the PAP still saw its popular votes dip, suggesting that the fruits of growth have not been well spread. This has led analysts, including Gillian Koh of the Lee Kuan Yew School of Public Policy and DBS Bank's Irvin Seah, to see the government paying even more attention to inclusive growth.

'With the average winning vote share for the ruling party having fallen significantly and the loss of a GRC (group representation constituency), it could mark a shift towards policies aimed at sustainable and inclusive growth, and away from headline growth per se,' Mr Seah says in a report.

This means not just creating more jobs with higher pay, but also spending more on education, health care and public assistance schemes. It will also mean even tighter control of the inflow of foreign workers to give Singaporeans more breathing space.

Noting that the government has already moved to put a squeeze on the entry of foreign workers and to beef up local wages before the election, Ms Koh says that 'there will be further impetus to examine the type of jobs, the wages paid, the number of locals in each sector that would be benefiting from each investment from abroad, as well as employment conditions and equal opportunities for all'.

With inflation and costs of living among the key concerns expressed in the election, UOB's Jimmy Koh and Alvin Liew expect a revisit of the minimum wage issue, though they don't think the government would soften its stand in any explicit form.

Generally, analysts don't think the PAP government would stoop to populistic measures.

'We think policies are likely to be calibrated to ensure more inclusive growth and more moderate pace of change forward,' says Tan Min Lan of UBS.

But, in pushing for more income equality, DBS's Mr Seah says that taxes may be made more progressive by shelving further hikes in the goods and services tax and dishing out more income tax rebate to lower income groups.

'Fiscal prudence would be maintained by a tighter rein on non-core expenditure as well as cost-cutting across government agencies,' he says.

Goldman Sachs' Mark Tan and CLSA's Ashwin Sanketh and Chuanyao Lu see the Monetary Authority of Singapore sticking to a strong-dollar policy to fight inflation.

'On rising inflation, we believe the focus on rising costs of living will likely mean that the Singapore dollar policy is kept on an appreciating stance, although the bar for incremental tightening moves on top of the current status quo is still quite high,' says UBS's Mr Tan.

While a radical move to put a lid on foreign workers is ruled out, analysts still expects further streamlining of the foreign-worker rule, which DBS's Mr Seah say could slow growth and increase labour costs in the near term.

So Ms Koh of the LKY School of Public Policy thinks that there would be an even harder push for higher productivity.

Nomura's Lim Jit Soon sees moves to moderate prices of HDB resale flats hitting the condominium market and the larger residential property sector.

Mr Lim and Citigroup's Kit Wei Zheng anticipate tighter restrictions on the casinos.