cutting through complexity

Singapore

High Growth Markets country profile

Singapore is one of the world's most prosperous countries, with strong international trading links that make its port among the busiest globally in terms of tonnage handled. It has a per capita gross domestic product (GDP) equal to that of the leading western European nations. With a highly developed and successful free-market economy, Singapore enjoys a remarkably open and corruption-free environment and stable prices. The economy depends heavily on exports, particularly in consumer electronics, information technology products, pharmaceuticals and a growing financial services sector. From 2015–2018, economic expansion should average 4.9 percent a year, reflecting faster export growth.

Country overview

Geography and climate

- **Location:** southeastern Asia; islands between Malaysia and Indonesia
- **Climate:** tropical; hot, humid, rainy; two distinct monsoon seasons — northeastern monsoon (December to March) and southwestern monsoon (June to September); inter-monsoon — frequent afternoon and early evening thunderstorms
- **Regions:** none

Political system

- **Type of government:** parliamentary republic
- **Capital:** Singapore

Population, language and religion

- **Population:** 5.5 million
- **Urban population:** 100%
- **Immigration:** immigrants from China, India and the Malay Archipelago
- **Demographics:** 0–14 years: 13.4%; 15–64 years: 76.6%; 65 years and over: 8.1%
- **Median annual household income:** 90,100 US dollars (US$)
- **Official language:** Mandarin, English and Tamil
- **Prominant religions:** Buddhist, Muslim, Taoist, Catholic, Hindu, other Christian

Currency and central banking

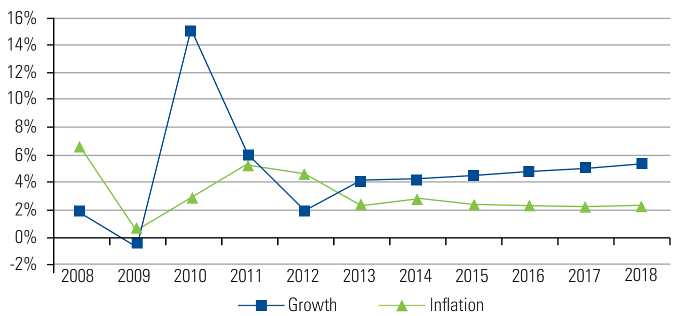
- **Local currency:** Singapore Dollar (SGD)
- **Exchange rate:** 1 SGD = US$0.7943 (1 April 2014)
- **Interest rate (average annual rate):** 0.4% (2013); 0.4% (2012); 0.4% (2011); 0.4% (2010); 0.7% (2009)
- **Foreign exchange reserves:** US$270.5 billion
- **Total debt (2013):** external: US$1.174 trillion; internal public debt: 113.6% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$264.8 billion.** Recovery in the manufacturing sector and strong construction activity should support real GDP growth of 4.2% in 2014. In 2015–2018, economic expansion is set to average 4.9% a year, reflecting faster export growth. The median household income is expected to increase to US$121,900 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$12.2 (2008); US$57.4 (2013); US$65.4 (2018 forecast); outbound: US$6.8 (2008); US$25.5 (2013); US$27.9 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$434.4 (2012); US$436.9 (2013); US$683.4 (2018 forecast)
- **Imports FOB (billions):** US$371.5 (2012); US$369 (2013); US$593.1 (2018 forecast)
- **Sector breakdown:** service: 75.5%; industrial: 24.5%; agriculture: 0%
- **Trade balance (billions):** surplus of US$62.9 (2012); US$67.9 (2013); US$90.4 (2018 forecast)
- **Stock exchanges:** Singapore Commodity Exchange (SICOM), SGX – Singapore Exchange

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** Singapore's policymakers will continue to keep a close eye on economic developments in the European Union (EU) and the US. The government and the Monetary Authority of Singapore have adeptly managed expectations and implemented policies to cushion the impact of weak global demand on the local economy. The main objectives of government policy will be to boost productivity and promote a more diverse economic structure, in order to reduce Singapore's dependence on exports of electronic goods. Through the careful use of stimulus measures, policymakers succeeded in preventing a deep and prolonged domestic recession in Singapore during the 2008–2009 global financial and economic crises. The Monetary Authority of Singapore operates a managed floating exchange rate regime.
- **Competition policy:** Singapore is known for its oligopolistic environment, although the government has been removing these barriers and encouraging liberalization. There is no tolerance for any hint of price gouging or monopoly practices by the private sector. The act prohibits agreements between undertakings, decisions by associations of undertakings or concerted practices that lead to the prevention, restriction or distortion of competition. No laws restrict mergers, but some financial institutions require prior regulatory approval. The Ministry of Trade and Industry can impose price controls as it deems necessary. During 2014–2015, the government's approach to competition law should incorporate international best practice. Looking forward to 2016–2018, government-linked companies' (GLCs) ability to respond to market conditions will be under scrutiny, amidst fears that they are driven more by bureaucratic rather than business goals. Protection of intellectual property is expected to remain robust.
- **FDI policy:** All industries are open to foreign investment in Singapore's free enterprise economy. The government is promoting local pilots in a number of sectors. During 2014–2015, foreign investors are likely to face minimal constraints on their operations. The government will continue to seek ways to enhance Singapore's attractiveness (especially relative to Hong Kong) as a location for regional corporate headquarters. In the period 2016–2018, the government should persist with efforts to attract investment that involves the transfer of technology or expertise.
- **Foreign trade and exchange controls:** Singapore has virtually no natural resources and depends heavily on external trade, enjoying the world's highest trade-to-GDP ratio. It is virtually a free port and pursues a free trade policy, with very few goods dutiable or restricted. Most goods can be freely imported to and exported from Singapore, although they do require permits from the Customs and Excise Department and International Enterprise Singapore. Singapore has no significant restrictions on foreign exchange transactions and capital movements. Between 2014–2015, the government should remain fully committed to free trade. Free trade agreements (FTAs) will be made with the EU and Taiwan, along with the Trans-Pacific Partnership, an FTA between 12 countries. 2016–2018 is likely to see further negotiations towards a number of bilateral and multilateral FTAs. Restrictions on local currency borrowing by non-resident financial entities are expected to be removed entirely.
- **Financing policy:** In 2014–2015, government-linked companies should enjoy continued access to medium-term financing at reasonable rates, although they may find it more difficult to obtain credit from EU-based banks. Financial institutions in Singapore are expected to remain well-capitalized. From 2016–2018, the government's major role in the local equity market (via sovereign wealth funds) is likely to be a persistent source of concern, given that the firms in which it holds indirect stakes may enjoy better access to financing than private sector companies.
- **Taxes:** The corporate tax rate stands at 17 percent. The top rate of personal tax is 20 percent. Goods and services tax (GST) stands at 7 percent. Property tax applies to all immovable properties in Singapore and is payable annually by the owners. During 2014–2015, the tax regime will remain attractive and predictable, although property taxes will stay relatively high as the government attempts to discourage speculation in the housing market. Certain taxes should be reduced further between 2016–2018, mainly through the use of incentive schemes. Effective tax rates are likely to be lowered, to help attract skilled personnel and foreign direct investment.

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Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014; Migration Policy Institute, 2014

Designed by Evalueserve. Publication name: Singapore: High Growth Markets country profile
Publication number: 130913s. Publication date: June 2014