



Chapter 7

BALANCE OF PAYMENTS

OVERVIEW

[Tables 7.1, A7.1 and Chart 7.1]

Singapore's balance of payments showed a surplus of \$13 billion in the final quarter of 2007, more than twice the amount recorded in the previous quarter. For the year as a whole, the overall balance of payments rose to \$29 billion, compared to \$27 billion in 2006. This reflected the widening of the current account surplus, which more than offset the increased outflow from the capital and financial account during the year. Consequently, Singapore's official foreign reserves rose to \$235 billion as at end 2007, equivalent to 7.1 months of merchandise imports.

CURRENT ACCOUNT

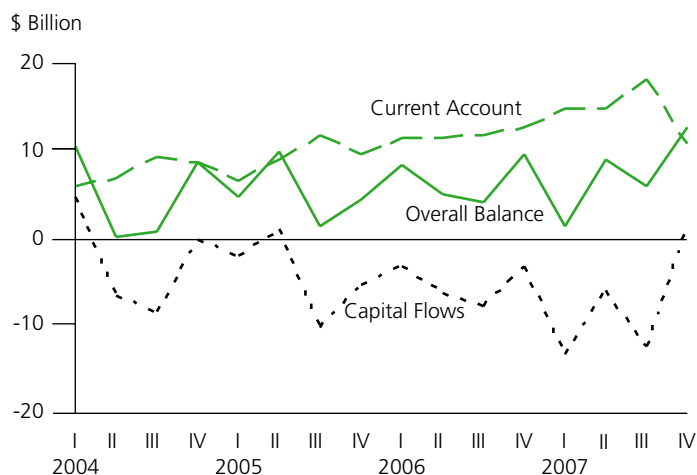
The widening of the current account surplus in 2007 was due to the reduction in the income deficit and increase in the net exports of goods...

The current account surplus narrowed to \$11 billion in the fourth quarter, compared to \$18 billion in the preceding quarter. However, for the whole of 2007, the current account surplus continued to trend higher. It reached \$59 billion (25 per cent of GNI) during the year, up from \$47 billion (23 per cent of GNI) in 2006. This was mainly due to the sharp reduction in the income balance deficit, as well as the widening of the goods balance surplus. The deficit in the services balance remained largely unchanged.

The income balance posted a larger shortfall of \$3.4 billion in the final quarter, compared to \$2.5 billion in the preceding quarter. Nevertheless, in the full year, the deficit had fallen significantly to \$8.6 billion, from \$15 billion in 2006. While income payments had increased, reflecting the

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[Chart 7.1]



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[TABLE 7.1]

	2006		2007				2007
	4th Qtr	Annual	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
	Million Dollars						
A Goods Balance	18,693	68,953	19,031	17,606	21,954	15,506	74,097
Exports of Goods	110,860	437,123	107,497	111,608	118,433	118,841	456,379
Imports of Goods	92,167	368,169	88,466	94,003	96,479	103,335	382,282
B Services Balance	-844	-4,199	-1,631	-1,271	-500	-526	-3,929
C Income Balance	-4,625	-15,223	-1,894	-778	-2,534	-3,397	-8,603
D Current Transfers (Net)	-582	-2,237	-603	-601	-656	-691	-2,552
E Current Account Balance (A+B+C+D)	12,643	47,295	14,902	14,955	18,265	10,892	59,014
F Capital Account (Net)	-87	-367	-93	-97	-109	-92	-391
G Financial Account (Net)	-3,372	-22,412	-13,119	-3,733	-11,097	236	-27,713
Direct Investment	4,531	19,865	10,691	3,970	3,135	44	17,840
Portfolio Investment	-3,927	-14,207	1,638	-1,282	-3,330	-22,033	-25,008
Other Investment	-3,975	-28,069	-25,447	-6,421	-10,902	22,225	-20,545
H Capital and Financial Account Balance	-3,459	-22,779	-13,212	-3,830	-11,206	144	-28,104
I Net Errors and Omissions	303	2,480	-175	-1,990	-1,027	1,579	-1,613
J Overall Balance (E+H+I)	9,487	26,996	1,515	9,136	6,031	12,615	29,298
K Official Reserves (Net)¹	-9,487	-26,996	-1,515	-9,136	-6,031	-12,615	-29,298

¹ Increase in assets indicated by a minus (-) sign.

Source: Singapore Department of Statistics

high returns provided to foreign investors against the backdrop of Singapore's strong economic performance last year, income receipts from our investments abroad had risen by an even larger magnitude.

The goods balance surplus fell by \$6.4 billion to \$16 billion in the fourth quarter of 2007, largely reflecting the \$6.9 billion increase in imports. Reflecting the continued strength in Singapore's export performance for the whole of 2007, exports of goods rose by \$19 billion, exceeding the \$14 billion increase in imports. As a result, the surplus in the goods balance reached \$74 billion in 2007, up from \$69 billion in the previous year.

Surplus in goods balance reached \$74 billion in 2007.

In comparison, the deficit in the services balance remained largely unchanged in the fourth quarter at around \$0.5 billion. For the whole of 2007, the deficit fell only slightly to \$3.9 billion, from \$4.2 billion a year ago. The services sectors with significantly larger deficits in 2007 included transportation (comprising freight, port services and passenger fares) and royalties. In addition, the surplus in "other business services" (which include trade-related and business management services) also shrank by a fairly large amount during the year. Providing an offset to these trends, the financial sector recorded an expansion in net exports, reflecting the strong performance of fund management activity. Furthermore, there was a substantial reduction in the deficit of travel services, due to the increase in travel receipts reflecting the record number of visitor arrivals to Singapore in 2007.

CAPITAL AND FINANCIAL ACCOUNT

Net outflow from the capital and financial account continued to increase during the year...

The capital and financial account registered a small net inflow of \$0.1 billion in the final quarter of 2007, reversing from its \$11 billion net outflow in the previous quarter. The last time it showed a net inflow position was in the first quarter of 2004. For 2007 as a whole, the account continued to record a net outflow of \$28 billion (12 per cent of GNI), compared to \$23 billion (11 per cent of GNI) in 2006. This was attributed to the increased net outflow from the portfolio investment account, and to a smaller extent, the reduction in net inflow to the direct investment account. In comparison, net outflow from the “other investment” account moderated last year.

In the fourth quarter, the net outflow of portfolio investment grew almost sevenfold to \$22 billion. Similarly, in 2007 as a whole, net outflow almost doubled to \$25 billion. This was due mainly to non-bank private sector flows, which turned around to a \$6.9 billion net outflow from a \$1.9 billion net inflow in 2006. There was a rise in private equity outflows, as locals increased their investment in the foreign bourses, amidst greater investor sophistication and robust economic growth in the region.

Net inflow of direct investment shrank by \$3.1 billion during the last quarter of 2007, and by \$2.0 billion for the full year. Notably, over the course of the year, gross foreign direct investment in Singapore trended downwards, to \$36 billion compared to \$39 billion in 2006. At the same time, outward direct investment by residents also eased slightly.

There was a massive turnaround in the “other investment” account to a net inflow of \$22 billion in the final quarter of 2007, from a net outflow of \$11 billion in the preceding quarter. Nevertheless, for the whole year, the account had remained in a net outflow position, albeit at a lower level of \$21 billion compared to \$28 billion in 2006. This was largely due to the reversal in banking flows from a net outflow of \$8.7 billion in 2006 to a net inflow of \$18 billion in 2007. Notably, there was a surge in the placement of funds in the domestic banking sector by Asian Currency Units (ACUs). Similarly, the non-bank private sector also switched from a net outflow of \$2.4 billion in 2006 to a net inflow of \$8.8 billion in 2007, reflecting increased borrowings of non-bank residents from the ACU.

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