

CHAPTER 7

BALANCE OF PAYMENTS**OVERVIEW**

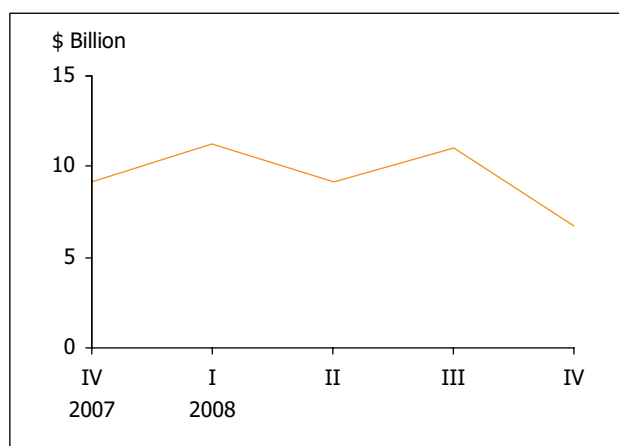
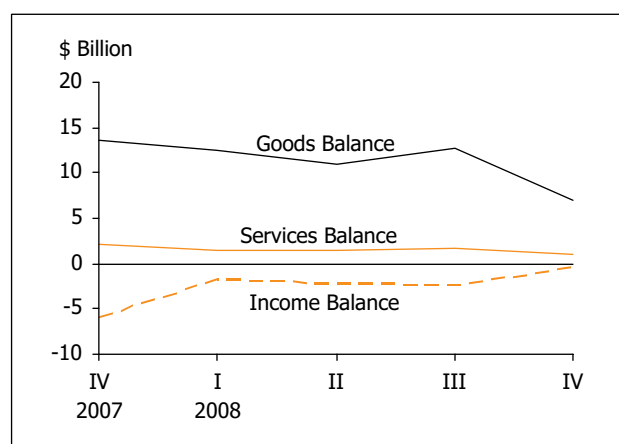
Singapore's balance of payments showed a surplus of \$4.4 billion in the final quarter of 2008, compared to the slight deficit recorded in the previous quarter. For the year as a whole, the overall balance of payments fell to \$19 billion, compared to \$29 billion in 2007. This reflected the narrowing of the current account surplus, which more than offset the reduced outflow from the capital and financial account during the year. Singapore's official foreign reserves rose to \$250 billion as at the end of 2008, equivalent to 6.7 months of merchandise imports.

CURRENT ACCOUNT

The current account surplus narrowed to \$6.7 billion in the fourth quarter, compared to \$11 billion in the preceding quarter (Exhibit 7.1). For the whole of 2008, the current account surplus contracted by a significant \$21 billion, to reach \$38 billion (15 per cent of GNI). This was mainly due to the sharp reduction in the surplus of the goods account, and to a smaller extent, in that of the services account. In comparison, the income balance contributed to a rise in the current account surplus as its deficit contracted.

The surplus in the goods balance fell by \$5.8 billion to \$7.0 billion in the fourth quarter, on account of the \$27 billion decline in exports which exceeded the fall in imports (Exhibit 7.2). For 2008 as a whole however, the increase in imports surpassed that of exports. As a result, the surplus in the goods balance fell to \$43 billion in 2008 from \$71 billion in the previous year.

The services balance chalked up another year of surplus in 2008, following the turnaround in the previous year from almost a decade-long history of deficits. Nevertheless, the surplus narrowed by \$3.0 billion to \$5.6 billion in 2008, reflecting the dip in the fourth quarter. In particular, the surplus in "other business services" (comprising largely of trade-related services, such as merchanting and counter-trade activities, and commissions received or paid for the trading of goods) shrank by the largest magnitude during the year. Net export of financial services also recorded a slight contraction. Providing an offset was the decline in net royalty payments.

Exhibit 7.1: Current Account Balance**Exhibit 7.2: Components of Current Account**

The income balance posted a smaller shortfall of \$0.6 billion in the final quarter, compared to \$2.4 billion in the preceding quarter. For the full year, the deficit narrowed significantly to \$7.0 billion, from \$17 billion in 2007. While income receipts from residents' overseas investments declined during the year, income payments to foreign investors in Singapore fell by an even larger magnitude.

CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account registered a small net outflow of \$1.6 billion in the fourth quarter of 2008, compared to \$12 billion in the previous quarter (Exhibit 7.3). For 2008 as a whole, net outflow from the account shrank by more than half to \$16 billion (6.5 per cent of GNI), from \$34 billion in 2007. This was attributed to the substantial reduction in net outflow from the "other investment" account, and to a smaller extent, the increase in net inflow to the direct investment account. In comparison, there was a rise in net portfolio investment outflow in 2008.

The "other investment" account turned around from a net outflow of \$4.0 billion in the third quarter to a net inflow of \$1.6 billion in the final quarter of 2008 (Exhibit 7.4). Nevertheless, for the whole year, the account remained in a net outflow position, albeit at a significantly lower level of \$2.6 billion compared to \$30 billion in 2007. This reflected in part the flows in the non-bank private sector. Notably, there was a fall in non-bank residents' deposits abroad, including those with the Asian Currency Units. In comparison, the banking sector recorded a net outflow in 2008, a reversal from its net inflow in 2007, mainly due to the increase in short-term inter-bank loans abroad.

Exhibit 7.3: Capital and Financial Account Balance

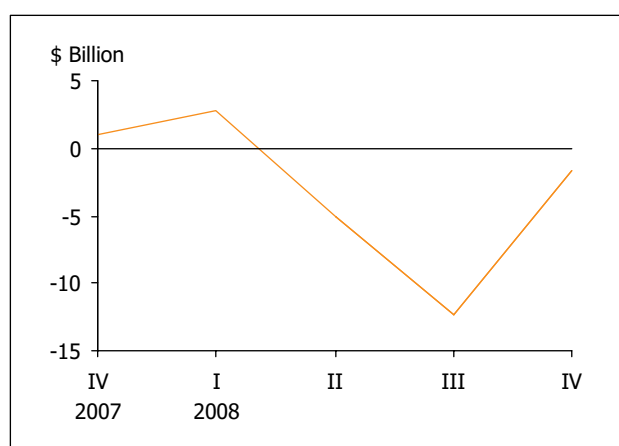
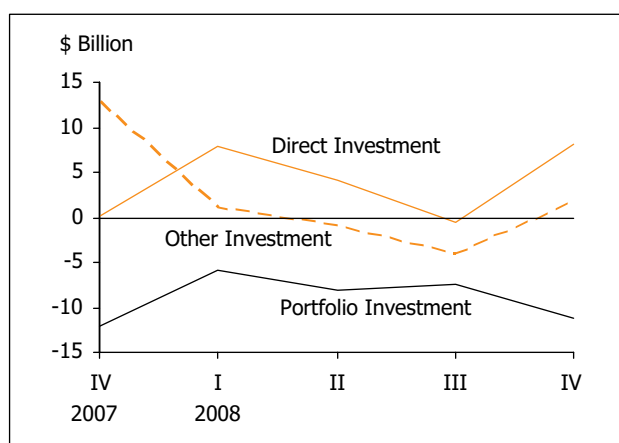


Exhibit 7.4: Components of Financial Account (Net)



As for direct investment, there was a net inflow of \$8.1 billion in the last quarter, compared to a slight net outflow of \$0.6 billion in the previous quarter. Over the course of the year, direct investment posted a net inflow amounting to \$20 billion, up from \$11 billion in 2007. While gross foreign direct investment in Singapore eased during the year, this was more than offset by the concomitant drop in outward direct investment by residents.

In the fourth quarter, the net outflow of portfolio investment grew by \$3.7 billion to \$11 billion. Similarly, in 2008 as a whole, net outflow more than doubled from \$14 billion to \$33 billion. This was mainly due to non-bank private sector flows, which turned around to a \$15 billion net outflow from a \$3.7 billion net inflow in 2007. In particular, there was a pullback of foreign funds from the domestic and regional equity markets, amidst heightened risk aversion among global investors.