

Impact of eurozone crisis on singapore economics essay



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Introduction

Impact of Eurozone crisis on Singapore and how it affects other Asia economies that Singapore is also dependent on. The severity of the impact that Eurozone crisis caused to Singapore, and underlying situations present in other Asia powerhouse economy that might surface if not properly addressed by their government might cripple Singapore's economy as a result of chain effect.

Policies that could directly affect Singapore's economy and managing of inflation rates by Singapore's central bank. Government intervention measures that is relevant and effective to address current situation and keeping inflation damage to economy under control.

Export-oriented countries such as Singapore face substantial economic risks from the Eurozone crisis.

The current Eurozone crisis began in the year 2010, where the world economies are not in the pink of health to respond to this crisis shortly after the United States subprime crisis. Member countries of the European Union such as Greece, Finland, Portugal and Estonia have all along take for granted of the peace, prosperity and social security that they enjoyed as being part of the European Union (Timothy, 2012).

Geoffrey (2012) recognised the European Union as the world largest economy, with its strength of 27 member nations and 500 million people and the amount of wealth produced annually is more than United States or China. This correlates the damage of European crisis to the world economies is

definitely is a grave issue that needs to be properly managed by Singapore and the world alike.

Singapore as a trade driven country that exports domestic and foreign products to key European countries has its GDP (gross domestic product) shrunk in the year 2011 as compared to year 2010. Singapore enjoyed a growth of 14.8 per cent in the year 2010 after world economies recovered from the effect of United States subprime crisis, in the following year Singapore suffered the impact of European countries that are facing debt crisis and has its GDP reduced to 4.9 per cent based on year 2005 prices. Singapore is unable to maintain the above 10 percent growth that it usually enjoys with its position as a popular trading hub during its heyday.

Annual National Income

2010

2011

GDP at Current Market Prices (\$m)

310,036.80

326,832.40

GDP at 2005 Market Prices (\$m)

285,658.50

299,624.70

GDP at 2005 Market Prices (Change in %)

Total

14. 8

4. 9

Data source from [www. mti. gov. sg/researchroom](http://www.mti.gov.sg/researchroom)

Although Singapore has so far been buffered from the economic situation in Europe, the forecast for Singapore growth has been greatly reduced in year 2012 due to the stress from the Eurozone crisis which could destabilize other European countries that Singapore exports to (Lee, 2012). Singapore exports have faced a declining demand especially in consumer electronics, information technology products, pharmaceuticals and service sector.

Singapore economy is largely dependent on exports to European nations and United State (Lee, 2012), the weak demand for Singapore exports by other Asia countries like China & Malaysia as they alike have suffered from the Eurozone crisis.

Fortunately for Singapore, inter Asia trading is still thriving and thus demand for Singapore products by them have although reduced but still manageable. Gangahar (2012) mentioned that Asia economies need not be overly worried about the Eurozone crisis, as the indications suggests that local debt capital markets across Asia are still active despite Greece and Spain debt situations persisted.

Singapore must always be ready to respond to global economic challenges, and must not be complacent or narrowly focused only on the Eurozone crisis.

Koo (2012) highlighted that other Asia powerhouse economy like Japan is <https://assignbuster.com/impact-of-eurozone-crisis-on-singapore-economics-essay/>

also facing high government debt to GDP ratios; Japan's situation is considered the most serious for a developed country but its fiscal crisis has yet to surface due to Japan's strong overseas debt repayment ability and the government bond ownership structure. 93 per cent of Japan's government bond is held by Japanese meaning that they are invulnerable to global economic changes.

China itself too is encountering another type of risk that are related to the enormous local government debt, China Prime Minister Wen Jiabao has hinted at the risks associated with this; saying that " local government debt is still being well managed, but local governments have to suppress their debt levels to ward off possible debt-caused risks" during his speech at the National Financial Work Conference in January 2012 (Koo, 2012)

Singapore is not self sustainable without the natural resources that other countries possess, it is very vulnerable at the time of any global economic crisis. Singapore being a small country with diversification in industries and quick to respond to external issues is the reason why the current Eurozone crisis did not affect it greatly. By keeping a watchful eye on the global economies performance and debt situation, only then Singapore can ready itself in time to cope with the economic challenges ahead.

Question 1: The government should play an active role in managing an inflationary economy.

Singapore's inflation rate has hit 2.8 per cent in the year 2010, and trend higher to 5.2 percent in year 2011. This is largely contributed by the surge in global energy prices, internal housing and transportation prices in the year

2011, as reflected in the Consumer Price Index from Singapore Department of Statistics. Since global energy prices are not controllable by Singapore, the means of tackling internal housing & transportation costs although have to be addressed but not as primary focus.

The CPI percentage of housing breach the 9 percent mark in second quarter of year 2011 as compared to year 2010, and the figure dangerously hovers above 9 per cent and continued into current year without any form of reprieve. A sharp increase in transportation cost of 5.5 percent during the first half of year 2012 is also worrying, housing & transportation are considered the basic needs of citizens. Affordability has since become a major issue, as the cost of owning a house in Singapore taking a toll on lower income and young families. Daily costs of commuting have since increased, the luxury of owning a car now in Singapore is out of the reach of average Singaporeans.

Private and public housing have both recorded high resale prices; this is attributed by foreign and local investors who regard housing as a viable form of investment in Singapore. Although new government subsidised flats does not fall within the grasp of investors, but pegging of new government flats to the current market resale prices have increased the cost of owning a new government subsidised flat for first time owners. Housing makes up for huge 25 percent of the CPI has become the main driver of the current high index, adjustments for housing market has been forecasted and could only be verified after the release of year 2012 CPI data (Wang. A and Wood. A 2012)

Monetary Authority of Singapore also regarded to as Central bank of Singapore has taken steps to curb on inflation rates; this could be seen by the loosening policy of Singapore currency for the first time since year 2009 by allowing Singapore dollar to appreciate and aid in reducing inflationary pressures as reflected in Singapore country report by The Economist Intelligence Unit Limited (2012).

Forecast on strong demand of commodities goods and current high import prices will see inflation rates drop, with the strength of fundamentals and the positive balances in the external accounts both indicates the possibility of Singapore dollar returning to a higher level against other Asian currencies. This will translates in a reduction of external inflationary pressures that will help maintain Singapore's low inflation figures, unless the current high oil prices continued in an upward trend though unlikely might affect the inflation rates as highlighted in IHS Global inc on Singapore Country Intelligence Report.

However MAS has always focused on Core inflation, which are oil prices, food prices and domestic wages. Which are vital for Singapore economy, MAS MD Menon. R (2012) has mentioned in the MAS annual report 2011/12 that core inflation figures has surged to 3. 1 percent in the first quarter of year 2012 and moderated to 2. 7 percent in the second quarter year. Firstly, global oil prices has since maintained at about US\$90 due to the stabilisation of political situations in the Middle East. Secondly, global food commodity prices have also dropped by 5. 4 percent in June as compared to January and this translates to lower domestic food inflation which also sees the figure dropped by 1. 5 percent to 2. 3 percent in June. Thirdly, domestic wages has <https://assignbuster.com/impact-of-eurozone-crisis-on-singapore-economics-essay/>

seen a 6 percent increase last year and thus lessening the impact of inflation to people.

MAS current policy of allowing Singapore dollar to appreciate is effective against core inflation as it serve the purpose of curbing core inflation rates, such as reducing the cost of imported commodities Menon. R (2012). One could feel that MAS is narrowly focused only on tackling the core inflation, and often neglected headline inflation on housing and transportation and leaving it to market demand controlled fluctuations. Rather than diversifying resources to manage both core and headline inflation, and achieving less than favourable results in the end; we can see that MAS had relatively done well in managing the core inflation. With the core inflation rates kept low, Singapore economy is able to sustain and achieve slow growth in current turbulent global economies situation but if the headline inflation rates continued to increase and still no measures to tackle it will also create a huge impact on Singapore economy. No one policy solution is suitable for all economic situations, constantly observing and tweaking of policies to stay relevant will benefit Singapore economy, in this instance only short and mid-term policies will be effective and results could be witnessed in a short period of time versus long term policies which results could only be seen after some time and during this period Singapore economy might experience negative growth and poses a dangerous internal economic threat.