CHAPTER 5
Balance of Payments


HSBC

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Singapore's balance of payments deficit came in at

$2.5 billion at the end of 2016

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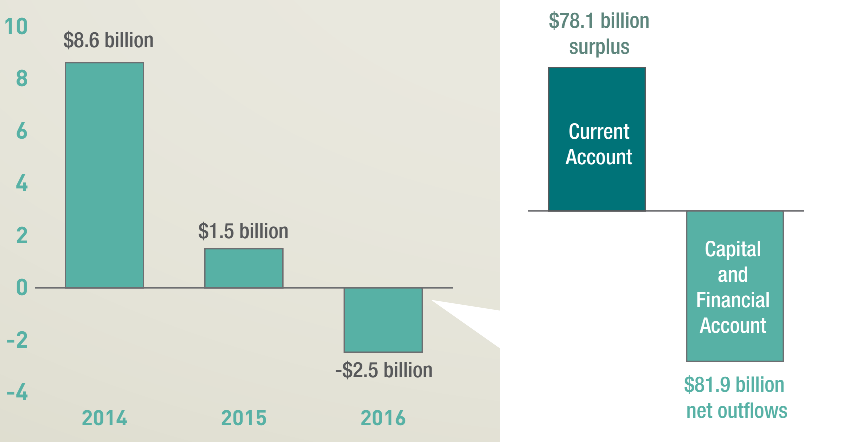


OVERVIEW

Singapore's overall balance of payments recorded a deficit of $3.9 billion in the fourth quarter of 2016, reversing the surplus of $5.4 billion in the third quarter. For the year as a whole, the deficit amounted to $2.5 billion, a reversal from the surplus of $1.5 billion in 2015. The deficit was due to larger net outflows from the capital and financial account, which outweighed the increase in the current account surplus. Singapore's official foreign reserves rose to $356 billion at the end of 2016, equivalent to 11 months of merchandise imports.

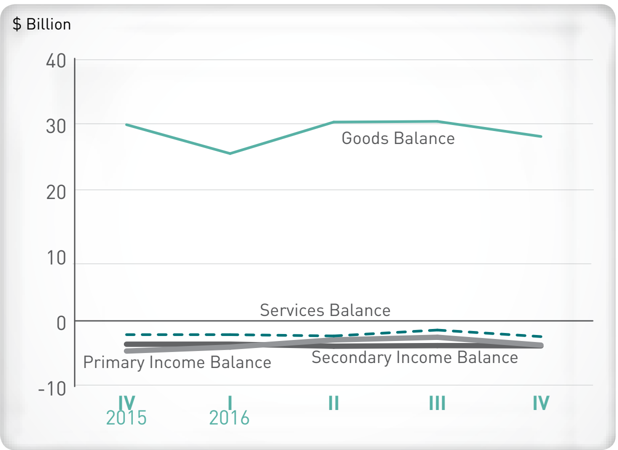
CURRENT ACCOUNT

The current account surplus narrowed to $18 billion in the fourth quarter, from $23 billion in the third quarter (Exhibit 5.1). For the full year, the surplus rose to $78 billion (19 per cent of GDP), from $74 billion a year ago (18 per cent of GDP). This expansion was largely driven by a smaller deficit in the primary income balance.

Exhibit 5.1: Current Account Balance

In terms of the sub-components of the current account, the surplus in the goods balance declined by $2.3 billion to $28 billion in the fourth quarter, as imports rose more than exports (Exhibit 5.2). For the full year, the fall in exports was offset by the decline in imports such that the surplus in the goods balance was broadly stable, at $114 billion.

Exhibit 5.2: Components of Current Account Balance



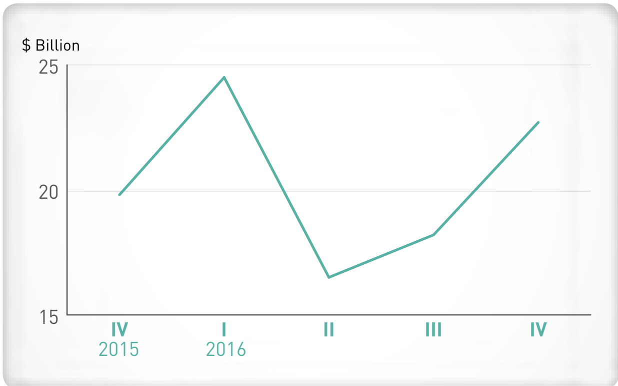
Meanwhile, the deficit in the services balance widened to $2.4 billion in the fourth quarter from $1.4 billion in the preceding quarter. For the year as a whole, the deficit rose slightly to $8.2 billion. Lower net receipts for both financial services and insurance services, along with higher net payments for the use of intellectual property, broadly offset the higher net receipts for maintenance and repair services as well as lower net payments for travel and transport services.

For the primary income balance, the deficit widened by $1.2 billion in the fourth quarter to $3.7 billion. For the full year, however, the deficit shrank by $5.0 billion to $13 billion, as income receipts from abroad rose while income payments to foreign investors declined.

CAPITAL AND FINANCIAL ACCOUNT

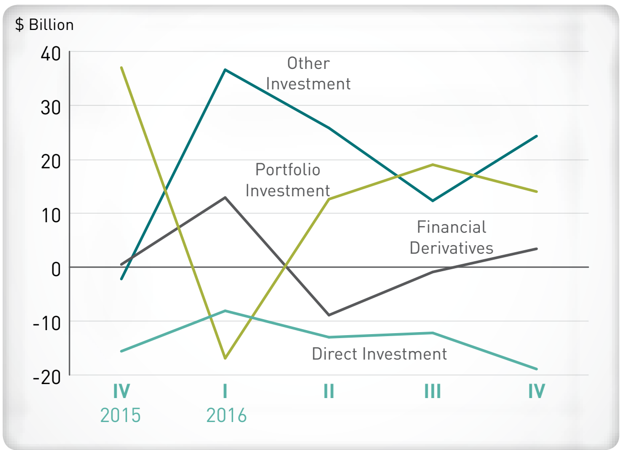
Net outflows from the capital and financial account[1] rose to $23 billion in the fourth quarter, compared to $18 billion in the previous quarter (Exhibit 5.3). For the year as a whole, net outflows increased to $82 billion (20 per cent of GDP), from $71 billion in 2015 (17 per cent of GDP). This was due to larger net outflows of "other investment", a reversal from net inflows of financial derivatives to net outflows, as well as smaller net inflows of direct investment. These collectively exceeded the decline in net outflows of portfolio investment.

Exhibit 5.3: Capital and Financial Account Balance



In terms of the sub-components of the capital and financial account, net inflows of direct investment rose by $6.7 billion in the fourth quarter to $19 billion (Exhibit 5.4). For the full year, net inflows of direct investment amounted to $52 billion, $1.8 billion lower than in 2015. This occurred as foreign direct investment into Singapore declined by more than residents' direct investment abroad.

Exhibit 5.4: Components of Financial Account (Net)



[1] *Decrease in assets and liabilities, and net inflows in net balances, are indicated by a minus (-) sign. For more details regarding the change in sign convention to the financial account, please refer to DOS's information paper on "Singapore's International Accounts: Methodological Updates and Recent Developments".*

Net outflows of portfolio investment declined from $19 billion in the third quarter to $14 billion in the fourth quarter. For 2016 as a whole, net outflows of portfolio investment fell to $29 billion, from $75 billion in the previous year. This largely reflected a switch by deposit-taking corporations from net purchases of overseas securities to net sales, as well as smaller net purchases by the domestic non-bank private sector.

Net outflows from the "other investment" account doubled to $24 billion in the fourth quarter. For the full year, net outflows from this account rose by $32 billion to reach $99 billion.

Financial derivatives turned from net inflows to net outflows of $3.4 billion in the fourth quarter. For the whole of 2016, net outflows of financial derivatives amounted to $6.4 billion, in contrast to the $17 billion net inflows in the preceding year.

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