NUS National University of Singapore
Source: *The Business Times,* p23
Date: 30 March 2023

Keeping inflation at bay, the Swiss way

Taking a cue from Switzerland, Singapore can seek to diversify its food and energy sources. BY WOO JUN JIE

SPARKED off by Russia's invasion of Ukraine, and compounded subsequently by disruptions in global supply chains and economic uncertainty, inflation has been a significant bugbear for policymakers across the world for the past year.

As a small open economy that is reliant on global supply chains, Singapore is particularly vulnerable to the effects of inflation. Official statistics show that core inflation in Singapore is the highest since November 2008, having risen to 5.5 percent year on year in both January and February.

The impact of inflation on citizens is pronounced. A recent PropertyGuru poll found that more than half of Singaporeans may delay their plans to buy a home until inflation eases. A DBS study published last year also revealed that income growth had not kept pace with inflation for four in 10 people.

However, not all countries are affected equally by global inflation. Despite the challenges that it faces with the collapse of Credit Suisse, the small alpine state of Switzerland has managed to beat inflation.

In Switzerland, the rapid appreciation of the Swiss franc over the past year has helped to blunt the impact of imported inflation. PHOTO: REUTERS

Fighting inflation Swiss style

In 2022, inflation in Switzerland hit a 29-year high of 3.5 per cent. To put that figure in context, inflation averaged 6.1 per cent in Singapore in 2022, and 6.5 per cent in the United States. How have the Swiss managed to keep their inflation rate low? And what can Singapore learn from them?

According to a recent CNBC report, Switzerland's ability to weather the impacts of inflation stems from its strong currency, resilient energy supply, strong price controls on goods and services, as well as a relatively well-off population.

Given its strength and stability, the Swiss franc has long been seen as a safe-haven currency by investors across the world. This is a position that has been bolstered by the global uncertainty that has gripped the world over the past three years.

Just a year ago, the currency had hit a seven-year high, as the start of the Ukraine-Russia conflict and the Covid-19 pandemic drove safe-haven capital into Switzerland. The rapid appreciation of the Swiss franc helped unexpectedly to blunt the impact of imported inflation, as a stronger franc meant that imported goods and services would be less expensive.

That advantage was complemented by Switzerland's high level of labour productivity, which has allowed it to reduce the amount of inputs required to produce the same quantity of goods and services. These factors helped to ensure the continued competitiveness of Swiss exports, even as the Swiss franc appreciated.

However, the strength of the Swiss franc alone would not be able to explain Switzerland's remarkable resilience to global inflation. After all, there are many other countries that have maintained strong currencies but which have nonetheless struggled with inflation. Compared to a year ago, the US dollar appreciated by 17 per cent as at February 2023. At the same time, inflation in the US for the 12 months up to February 2023 stood at 6 per cent. Currency is therefore not the sole determinant of a country's ability to manage inflation.

In Switzerland, crucial supply-side factors come into play. First, the Swiss have long relied on hydroelectricity as a key source of energy. This makes Switzerland far less reliant on oil and gas, both of which saw significant cost increases with the ongoing war between Russia and Ukraine. Furthermore, Switzerland's energy suppliers are mostly publicly owned and subject to strict pricing regulations. This sets limits on the extent to which energy costs are allowed to rise. Aside from energy, Switzerland also maintains strict price controls on the price of goods and services.

Taken together, these price controls ensure that energy costs, which then affect the costs of essential goods and services such as food and transport, are kept affordable. Certainly, such controls are also possible because Switzerland produces much of the food and energy that it consumes.

Hydroelectricity accounts for 14 per cent of Switzerland's gross energy consumption and 62 per cent of its domestic electricity production. In terms of food, the country's agricultural sector is able to provide for about half of its food needs. Given our spatial constraints, food and energy production are factors that will be much more difficult for Singapore to replicate. What else, then, can we glean from Switzerland's successful efforts to manage inflation?

From the Alpines to the tropics

Like Switzerland, Singapore has a strong and stable currency, with the Singapore dollar similarly seen as a safe-haven currency. Furthermore, the exchange rate is the key lever through which the Monetary Authority of Singapore (MAS) maintains price stability, with its monetary policy centred on managing the Singapore dollar against a trade-weighted basket of currencies.

To combat inflation, the MAS tightened its monetary policy five times over the course of 2022, allowing the Singapore dollar to appreciate in the process. In light of Singapore's high inflation figures, economists expect the MAS to tighten its monetary policy further during its April meeting.

Given the important role that the Singapore dollar plays in monetary policy as well as in helping to maintain the affordability of our daily needs – the supplies being mostly imported – it is therefore important for the MAS to maintain the strength and stability of the Singapore dollar.

That vigilance should be complemented by efforts to raise labour productivity, so that Singapore's export-driven industries do not become less competitive as a consequence of its higher exchange rates. In 2022, Singapore's overall labour productivity fell by 4.6 per cent in the fourth quarter.

As Deputy Prime Minister Lawrence Wong noted during the recent ST-BT Budget Dialogue, raising productivity through high quality investments and worker training would be critical in ensuring Singapore's competitiveness in a high-cost and high-inflation environment.

Staying energised

Aside from our currency, it is also absolutely critical for Singapore to continue diversifying its energy mix as well as working towards greater self-sufficiency in food. Policy initiatives such as the Energy Market Authority's Energy Transition to 2050 and the Singapore Food Agency's 30-by-30 goal would facilitate an important role in ensuring greater energy diversity by 2050 and the ability to produce 30 per cent of the country's nutritional needs by 2030.

While Singapore may not be able to produce much of its energy and food, it can work towards diversifying the sources from which it obtains them. That buffer would help to blunt the inflationary effects of supply chain disruptions that often arise during times of crisis and uncertainty.

Given the far-ranging societal and economic impacts of inflation, Singapore's efforts to combat inflation would need to take on a whole-of-government and whole-of-industry approach. That would mean taking into account related policy areas such as food security, energy mix diversity and economic productivity, aside from traditional monetary policy.

As the world that we live in becomes increasingly unpredictable and policy problems more complex, policymaking will necessarily become more fluid and dynamic. For Singapore, there is value in taking a leaf out of the books of successful small states such as Switzerland.

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