Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

21 February 2022

Highlights

- **The global economy expanded by 5.3% in 2021, marking a strong rebound from the COVID-induced contraction of 3.0% in 2020.** The major advanced economies (AEs) have recovered more rapidly than emerging market economies (EMEs). This mainly reflected AEs' more generous macro policy support, and their greater robustness to repeated virus infection waves, attendant on more rapid vaccination deployments. However, the emergence of a range of supply frictions in conjunction with the strength of demand contributed to a rise in global inflation to 2.8%, the highest since 2011.

- **Global growth is projected to remain above trend in 2022 as the recovery from the pandemic matures and supply frictions are gradually overcome.** GDP growth is forecast at 4.4% in 2022. Virus outbreaks are expected to continue to weigh on activity in 2022 but with diminishing effect, as more countries strengthen vaccine provision and transit to an endemic phase. The hindrance to activity from supply constraints may be nearing its peak.

- **Global inflation is expected to rise further to 3.3% in 2022, before moderating in 2023.** Price pressures have intensified most sharply in the AEs, reflecting their stronger and more front-loaded demand recoveries. Further, the resolution of supply problems has lagged the pickup in demand. Inflation in Asia ex-Japan is forecast to increase more modestly given still-negative output gaps in many regional economies. Global inflation is projected to ease towards central bank target ranges in 2023 as demand and supply progressively re-equilibrate.

- **There is considerable uncertainty around the global macroeconomic outlook,** with the trajectory of the pandemic remaining a risk. The emergence of new, vaccine-resistant COVID-19 strains could trigger more public health measures, weigh on demand, and exacerbate supply constraints. Geopolitical tensions constitute another risk that could manifest through supply interruptions (for example if energy producers are affected), or by damaging confidence. Inflation could be higher or more persistent than expected if medium-term inflation expectations drift upwards.

- **Persistent positive inflation surprises could trigger a sharp tightening in global financial conditions.** Coupled with prevailing vulnerabilities such as elevated debt levels and stretched asset valuations, the risk of a disorderly market correction has grown. Nevertheless, Asian EMEs are in a better position to weather financial market volatility due to improvement in their external balances over the years.

- **The Singapore economy grew at a creditable pace of 2.3% q-o-q SA in Q4 2021, bringing the full year expansion to 7.6%.** GDP growth in Q4 was largely driven by continued strength in the external-facing sectors, particularly manufacturing. Singapore's economic recovery is set to become more broad-based in 2022. Stronger growth should extend to the domestic-oriented and travel-related sectors, as high vaccination and booster rates allow for the gradual easing of domestic safe management measures and border restrictions, and in turn more economic activities to resume. Barring fresh disruptions, GDP growth is projected to come in at 3–5% in 2022.

- **The labour market continued to recover over H2, with resident employment registering robust growth.** Meanwhile, inflows of non-resident workers remained largely impeded by COVID-related border restrictions, even as some recovery occurred in Q4. On the whole, the domestic labour market showed signs of tightening in tandem with the strong economic recovery. The resident unemployment rate declined and was close to its pre-pandemic level in December and wage growth remained firm in Q3. The quick pace of employment expansion is expected to persist into H1 this year as both resident and non-resident workforces expand on the back of firm business hiring intentions. Resident wage growth is expected to pick up even as progressively greater inflows of non-resident workers alleviate the labour shortages in some sectors.

- **Both CPI-All Items and MAS Core Inflation rose further in Q4 2021, reflecting an increase in underlying inflation momentum and a broadening of price pressures.** Core inflation picked up on the back of higher services and food inflation, and is expected to rise further over H1 2022 as services inflation strengthens in tandem with the tightening labour market and pickup in private consumption. Core and headline inflation are forecast to ease in H2 as external inflation drivers recede but risks remain on the upside. For 2022 as a whole, MAS Core Inflation is forecast to come in within 2–3%, up from 0.9% last year. Meanwhile, CPI-All Items inflation is projected to average 2.5–3.5%, following the 2.3% outturn in 2021.

- **Macroeconomic policy has shifted pre-emptively in line with the evolving cyclical developments of the economy.** In an unscheduled policy announcement in January 2022, MAS raised the rate of appreciation of the S$NEER policy band slightly, in light of the significant shift in the inflation outlook. This further adjustment, which followed the pre-emptive policy move in October 2021, is appropriate for ensuring medium-term price stability. While fiscal policy ensured that there would be continuing targeted support for vulnerable businesses and households amid the ongoing cost pressures, the focus of Budget 2022 has clearly shifted towards facilitating the transformation of the economy and building a fairer and more resilient tax system.

1 The International Economy

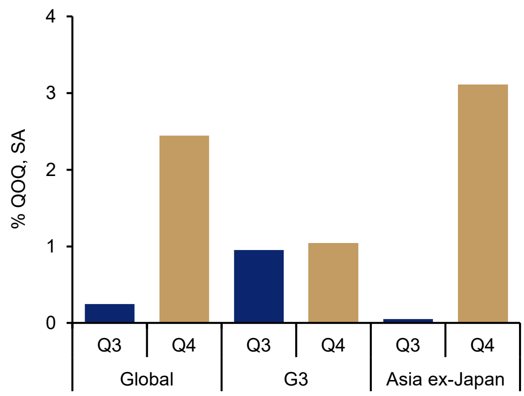
Above-trend global growth projected for 2022 after temporary setback from the latest COVID-19 resurgence

The global recovery strengthened in Q4, with output estimated to have expanded by 2.4% q-o-q SA, from 0.2% in Q3.[1] The pick-up was driven by Asia ex-Japan, where GDP growth accelerated to 3.1%, while the expansion in the G3 was broadly steady at 1.0% **(Chart 1.1)**.[2]

Growth outcomes continue to be determined in large part by the evolution of the pandemic. North America and Europe saw the Omicron wave emerge towards the end of 2021 **(Chart 1.2)**, earlier than in Asia, and consequently economic activity in the US and Eurozone were dampened in Q4. In contrast, an abatement of earlier infection waves and economic re-opening contributed to the strong rebound in Asian EMEs.

Chart 1.1 The recovery strengthened in Q4, particularly in Asia ex-Japan

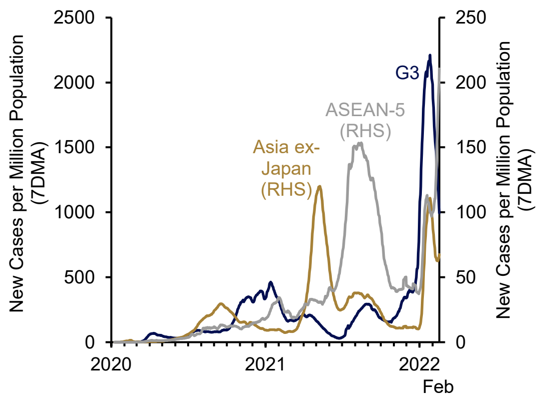
GDP growth



Source: EPG, MAS estimates

Chart 1.2 Infection waves staggered across countries

Seven-day moving average (7DMA) of new COVID-19 cases



Source: WHO and EPG, MAS estimates

The G3 economies appear to have become more resilient to successive waves of the virus. Location data from Google showed that average mobility in the G3 fell to around 15% below the pre-pandemic baseline during the recent peak of the Omicron wave, compared to a much sharper decline of around 30% during the peak of the second wave of the COVID-19 pandemic in January 2021 (**Chart 1.3**), despite a much higher rate of infection in the former. This greater resilience likely reflected in part rising vaccination rates. More than 70% of the G3 population have completed their prescribed course of vaccination (excluding booster shots), compared to around 10% in the second wave.

The renewed rise in COVID-19 cases has also induced sectoral divergence within economies. Services activity was weighed down by the rise in infections, while manufacturing

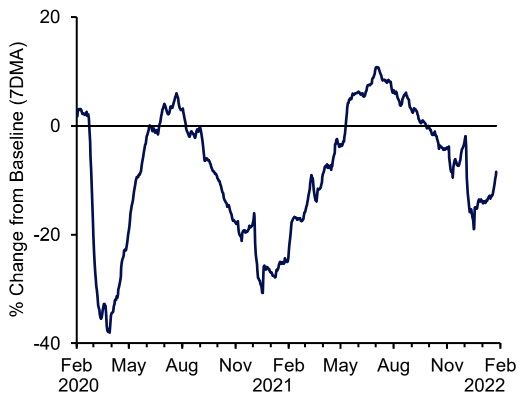
1 Global and regional GDP growth aggregates are weighted by economies' shares in Singapore's NODX, unless noted otherwise.

2 The G3 grouping refers to the Eurozone, Japan and the US, while Asia ex-Japan refers to China, Hong Kong SAR, India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan, Thailand and Vietnam.

has been more resilient, based on the latest PMI figures (**Chart 1.4**). Specifically, the global services PMI declined to 54.7 in December, from an average of 55.0 in Sep–Nov, while the global manufacturing PMI edged up to 54.3 in December, from an average of 54.2 in the preceding three months. In the G3, retail sales declined by 1.9% m-o-m SA in December as the Omicron wave began. Meanwhile, new export orders sub-index of the Asia ex-Japan manufacturing PMI rose slightly to 50.6 in January 2022, from 50.4 in December, suggesting that the negative spillover from slightly weaker activity in the G3 has so far been limited.

Chart 1.3 Mobility registered a smaller decline, compared to previous infection waves

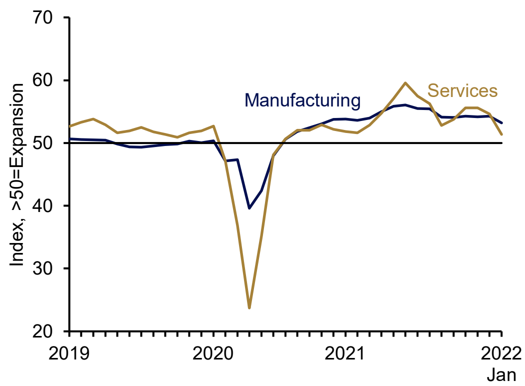
G3 Population mobility index



Source: Google Community Mobility Reports, and EPG, MAS estimates

Chart 1.4 Manufacturing activity remained resilient, despite services losing momentum

Global manufacturing and services PMI



Source: IHS Markit

Supply constraints that emerged over the course of 2021 have hampered activity and contributed to the rise in inflation. However, there is some evidence that logistical and production frictions may be starting to ease. The New York Fed's Global Supply Chain Pressure Index[3], while still historically high, peaked in October and has since moderated.[4] In the G3, the proportion of respondents reporting lengthening supplier delivery times and rising order backlogs has fallen since Q4 2021. In Asia ex-Japan, suppliers' delivery times continued to lengthen, but order backlogs fell in January for most firms **(Chart 1.5)**.

Further, constraints on global electronics supply are starting to loosen. The global PMI order backlog sub-index for electronic equipment declined to 55.8 in January, the lowest since March 2021. In Taiwan, the semiconductor inventory-to-shipment ratio has risen from record low levels to around its 2019 average **(Chart 1.6)**. South Korea's inventory-to-shipment ratio has also risen from its low point in June 2021, albeit with more volatility recently.

Nonetheless, some supply-side constraints, such as shortages in freight capacity, will likely take more time to resolve. In particular, investment in new productive capacity often has

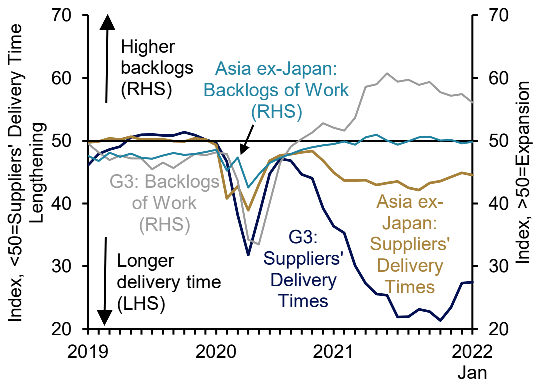
3 The New York Fed's Global Supply Chain Pressure Index is a composite measure of supply disruptions that attempts to correct for the effect of changes in demand on variables such as logistics costs and the PMIs.

4 G. Benigno, J. di Giovanni, J. J. J. Groen, and A. I. Noble, 4 January 2022, "A New Barometer of Global Supply Chain Pressures" Federal Reserve Bank of New York Liberty Street Economics.

long lead times. Consequently, aggregate supply is unlikely to adjust sufficiently in the short term to equilibrate quickly with demand.

Chart 1.5 Suppliers' delivery time continued to lengthen amid renewed virus outbreaks

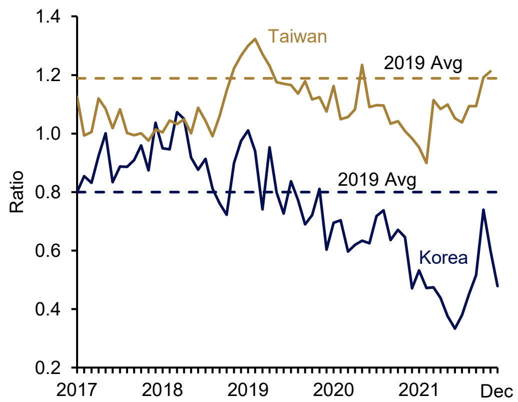
PMI sub-indices for suppliers' delivery times and order backlogs



Source: Haver Analytics and EPG, MAS estimates

Chart 1.6 Supply constraints may be gradually easing in electronics

Semiconductor inventory-to-shipment ratio



Source: Haver Analytics and EPG, MAS estimates

The staggered incidence of infection waves will likely continue to induce some de-synchronisation of growth momentum in the near term. Differences in vaccination rates and containment strategies will lead to varying degrees of resilience to the virus across countries.

The G3 is projected to register another year of above-trend growth, of 3.7%, in 2022 (2015–19 average: 1.9%). Major AEs are expected to remove most formal movement restrictions in the early part of 2022, permitting a rapid recovery in population mobility and consequently in domestic demand. The foundations for a pickup in private consumption have been laid by recent rapid declines in unemployment and by the strength of household balance sheets. At the same time, the robust demand outlook has contributed to an improvement in business sentiment, supporting investment prospects. For example, the capital spending sub-index of the US CEO Economic Outlook Survey, which provides an indication of investment intentions in the next six months, rose to 114.7 in Q4 2021, the highest level since mid-2018.

In Asia ex-Japan, the impact of renewed COVID-19 infections on economic activity is expected to be smaller than during previous waves of infections, mirroring the G3's experience, given the region's rising vaccination rates and the increasing ability of businesses and households to adapt to restrictions. Growth is projected to pick up firmly around mid-2022 as more countries in the region transit to an endemic phase of the virus. In addition, regional economies that are more reliant on tourism should see a fillip from the gradual resumption of cross-border leisure travel.

The strength of the recovery in private demand gives governments room to taper support packages. IMF estimates suggest the average fiscal impulse in the G3 will become noticeably negative in 2022 at −2.2% of potential GDP, from −0.2% in 2021. In comparison, the fiscal drag in Asia ex-Japan is expected to be lower, with the fiscal impulse at −1.1%.[5] Further, major

[5] Data from IMF, Fiscal Monitor, October 2021. Aggregates are computed by weighting the annual change in the general government cyclically-adjusted primary balance (CAPB) (as % of potential GDP) by countries' nominal GDP.

central banks have signalled that present levels of policy accommodation will be gradually withdrawn.

All considered, global GDP is expected to expand by 2.6% SA in H1 2022 (over H2 2021), followed by 2.2% growth in H2. Global growth is forecast to ease to 4.4% in 2022 from 5.3% in 2021, but will remain above its 2015–19 average of 3.8% **(Table 1.1)**.

Table 1.1 Global growth is set to moderate, but remain above trend in 2022

	Sequential semi-annual growth, SA (%)			Annual (%)	
	2021 H2	2022 H1	2022 H2	2021	2022
G3	2.3	1.8	1.5	4.6	3.7
Asia ex-Japan	1.2	2.9	2.4	5.6	4.8
ASEAN-5	−0.2	4.2	3.0	3.0	5.7
Global	**1.4**	**2.6**	**2.2**	**5.3**	**4.4**

Source: Haver Analytics and EPG, MAS forecasts

Note: The G3 grouping refers to the Eurozone, Japan and the US, while the ASEAN-5 comprises Indonesia, Malaysia, the Philippines, Thailand and Vietnam. Asia ex-Japan comprises China, Hong Kong SAR, India, South Korea, Taiwan and the ASEAN-5. All aggregates are weighted by country shares in Singapore's NODX.

Inflation is expected to stay elevated in 2022 before moderating

Price pressures intensified in Q4 2021, with headline inflation reaching 4.0% globally, as the continued pick-up in spending ran into supply frictions. Inflation has accelerated most sharply in the major AEs, reflecting their stronger and more front-loaded demand recoveries. Average headline inflation across the G3 rose to 5.6% y-o-y in Q4, the highest rate since Q3 1982.[6] In comparison, price pressures have been less pronounced in Asia ex-Japan, with average inflation at 2.9% in Q4, up from 2.1% in Q3.

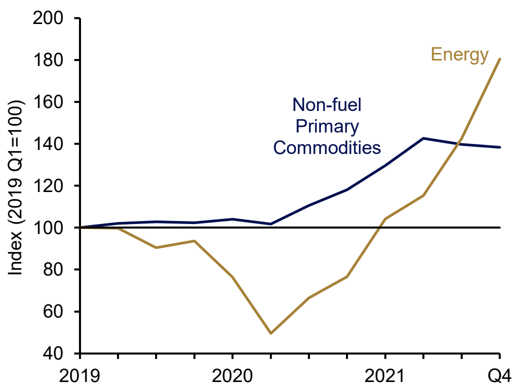
Inflationary pressures have been exacerbated by an ongoing rise in energy prices. The IMF's energy price index increased by 26.5% q-o-q in Q4 2021, faster than the 23.7% pace in the preceding quarter **(Chart 1.7)**.[7] Brent crude oil prices reached US$86 per barrel in November, the highest since October 2014 (and still climbed higher in early 2022 to average US$95 per barrel over 1–17 Feb). However, the impact of higher energy prices on headline inflation was weaker in Asia ex-Japan (**Chart 1.8**), despite the lapse of energy-cost subsidies in some regional countries and the typically higher share of fuel in regional price baskets compared to the G3. More broadly, non-food and fuel price growth was also weaker in the Asian economies relative to the G3, given the region's less advanced recoveries.

6 Global and regional inflation aggregates are weighted by economies' shares in Singapore's direct imports.

7 Computed as the difference in the quarterly averages.

Chart 1.7 The sharp rise in energy prices continued as global activity strengthened in Q4

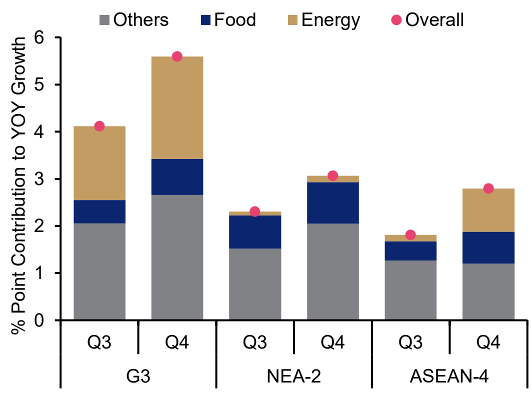
Non-fuel primary commodities price index and energy prices



Source: IMF and EPG, MAS estimates

Chart 1.8 Higher energy prices have added to inflationary pressures

Percentage point contribution to average y-o-y CPI inflation



Source: Haver Analytics and EPG, MAS estimates

Global inflation is projected to rise from 2.8% in 2021 to 3.3% in 2022, as the resolution of supply constraints is expected to lag the recovery in demand. Production costs continued to increase at a robust pace in January, with the global composite PMI sub-index for input prices at 66.8, close to its highest level in more than 13 years. The IMF's projection, based on futures prices, is for oil prices (in US$) to rise by 11.9% in 2022, following a 67.3% increase last year.[8] The moderation in the projected rate of increase in oil prices suggests that its contribution to headline inflation will be smaller in 2022 compared to last year.

All considered, inflation in the G3 is projected to rise to 4.5% in 2022, from 3.7% in 2021. In comparison, inflation in Asia ex-Japan is forecast to rise but remain moderate at 2.4%, as underlying price pressures are expected to be well-contained amid still-negative output gaps in many regional economies. The gradual rebalancing of supply and demand is projected to lower inflation towards central banks' targets across the major economies by 2023.

The outlook is subject to elevated uncertainty related to the pandemic, geopolitical tensions, and the persistence of inflationary pressures

The COVID-19 virus continues to present a significant source of uncertainty to the global outlook. New waves of infection, particularly if driven by more dangerous variants, could lead to stricter public health measures, weaker demand, and more protracted supply constraints.

There is a risk that the recent rise in inflation could prove more durable and pernicious than anticipated, particularly if medium-term inflation expectations drift upwards and become embedded in price and wage setting behaviour. Escalation of current geopolitical tensions involving important energy-producing countries could lead to further price shocks and interact with the underlying macroeconomic dynamics to contribute to slippage of inflation expectations.

[8] IMF World Economic Outlook Update, January 2022.

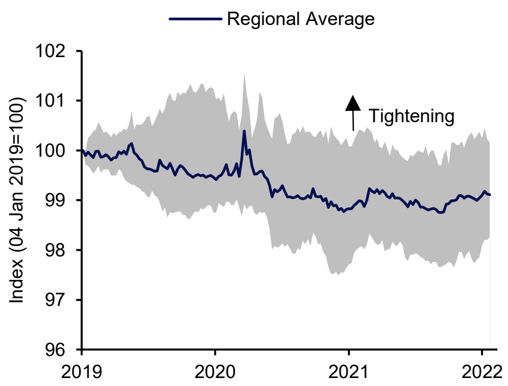
Financial conditions in EMEs remain accommodative, but could turn sharply tighter

Financial conditions in EM Asia tightened slightly in Q4 2021 and into 2022, but have remained accommodative relative to pre-pandemic levels **(Chart 1.9)**. While EM Asia government bond yields have risen alongside the increase in US Treasury yields over this period, risk premia have remained relatively stable. Non-resident flows into EM Asia ex-China debt have increased in aggregate, supported by carry trades that look to earn higher returns on EM government bonds funded by low-cost borrowing in AE currencies **(Chart 1.10)**. In comparison, risk appetite towards EM Asia equities had softened given their weaker recoveries, which have weighed on capital gains. Nevertheless, given the dominant inflows of debt, EM Asian currencies as measured against the USD were stable over the same period.

Global financial conditions could however tighten in a disorderly manner if persistent positive inflation surprises in AEs trigger market expectations of larger monetary policy adjustments by major central banks. This could lead to a sharp repricing in financial assets, particularly as valuations of some assets appear stretched. For example, the cyclically adjusted price-to-earnings ratio of major advanced economy indices are still at multi-year highs. The increase in borrowing and refinancing costs could also trigger an unwinding of the elevated non-financial corporate and sovereign debt levels across EMEs **(Chart 1.11)**. Tighter financial conditions would especially affect countries that are heavily reliant on short-term external financing and those whose economic recovery remains incomplete. Nevertheless, the Asian EMEs could be less vulnerable to capital flow reversals given the improvements in external balances over the years **(Chart 1.12)**.

Chart 1.9 Financial conditions in Asian EMEs tightened slightly in Q4 2021 and into 2022

Asian EME financial conditions indices

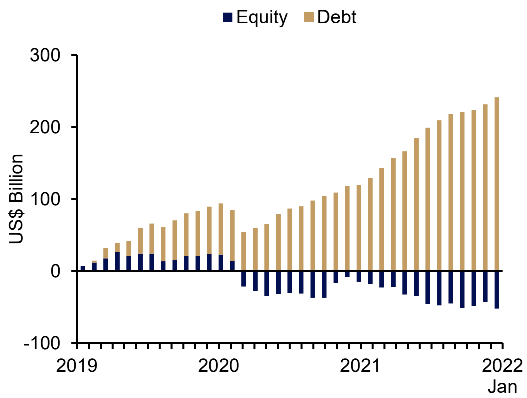


Source: Bloomberg and EPG, MAS estimates

Note: Simple average of the GS Financial Conditions Indices retrieved from Bloomberg rebased to 4 January 2019 for the following economies: China, India, Indonesia, Korea, Malaysia, Thailand, the Philippines. Shaded region represent maximum-minimum range of the cross-country data.

Chart 1.10 Portfolio inflows into Asian EMEs ex-China, driven mainly by debt flows, have remained stable

Cumulative non-resident portfolio flows to Asian EMEs ex-China

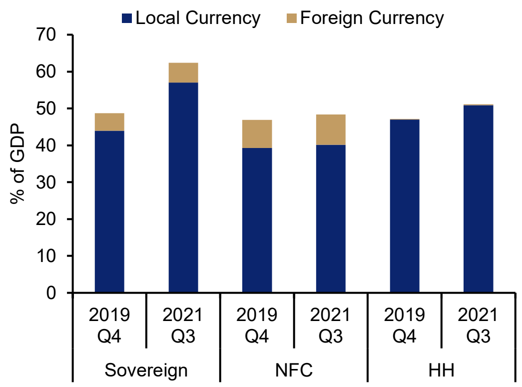


Source: Bloomberg and EPG, MAS estimates

Note: Data are cumulative sum of monthly non-resident flows to stock exchanges and local debt markets since January 2019 for the following economies: India, Indonesia, Korea, Malaysia, Thailand, Taiwan (equity only), and the Philippines.

Chart 1.11 Debt levels in Asian EMEs are elevated

Debt by sector and currency

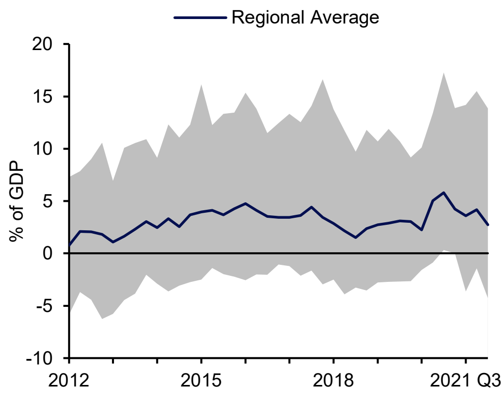


Source: Haver Analytics and EPG, MAS estimates

Note: Simple average of debt for the following economies where timely data are available: India, Indonesia, Malaysia, Thailand; NFC Non-financial corporates, HH = Households.

Chart 1.12 External balances of Asian EMEs are in a relatively strong position

Current account balance



Source: Haver Analytics and EPG, MAS estimates

Note: Simple average of current account balances for the following economies: China, Hong Kong SAR, India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan, and Thailand. Shaded region represents maximum-minimum range of the cross-country data.

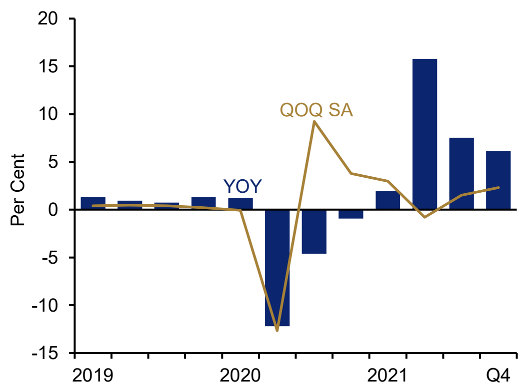
2 The Singapore Economy

Economic growth ended 2021 on a positive note, but sectoral disparities remained

The Singapore economy grew by 2.3% q-o-q SA in Q4 2021, after some weakness in the preceding two quarters **(Chart 2.1)**. GDP growth in Q4 was largely underpinned by the stronger-than-expected outturn in manufacturing, while exportable services such as wholesale trade, financial as well as information & communications also performed well **(Chart 2.2)**. On a y-o-y basis, GDP increased by 6.1% in the last quarter, bringing full-year growth to 7.6%. While the trade-related and modern services clusters were less affected by the pandemic, with activity levels already surpassing pre-COVID levels by end-2020, the domestic-oriented and travel-related clusters remained below pre-crisis levels at the end of last year.

Chart 2.1 Singapore's growth picked up in Q4

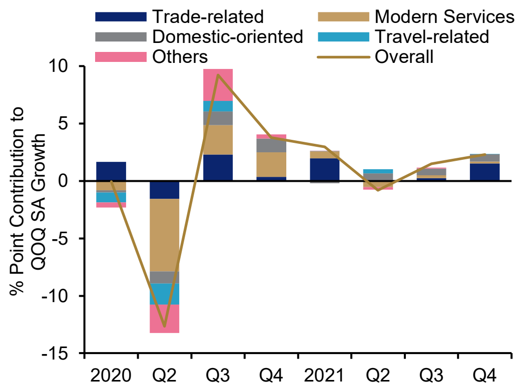
Singapore's GDP growth



Source: DOS

Chart 2.2 Growth in Q4 was underpinned by strength in manufacturing and modern services

Contribution to GDP growth



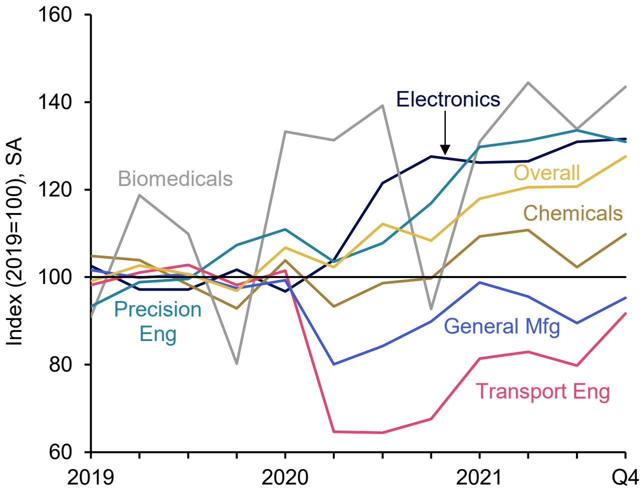
Source: EPG, MAS estimates

GDP growth in Q4 was driven by the external-facing sectors, particularly manufacturing

Amid the global surge in manufacturing and trade activity, Singapore's Index of Industrial Production increased by 5.7% q-o-q SA in Q4, with almost all clusters recording positive growth **(Chart 2.3)**. Output in the transport engineering and chemicals clusters rose the most, while electronics production edged up in Q4, supported by continued strong global demand for info-communications and consumer electronics. Nevertheless, the transport engineering cluster remained below its pre-COVID level, with the aerospace segment held back by still-weak air traffic. For 2021 as a whole, the manufacturing sector recorded an 11 year-high growth rate of 13.2%.

Chart 2.3 Industrial production saw broad based strength in Q4

Index of industrial production

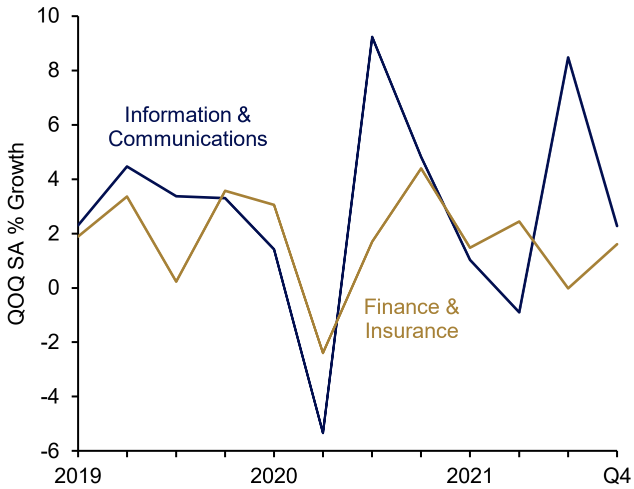


Source: EDB

The financial sector expanded by 1.6% q-o-q in Q4 2021, after activity levelled off in the previous quarter. Oher auxiliary activities, which mainly comprises payments processing players, surged alongside the pickup in consumer spending during the festive season **(Chart 2.4)**. Likewise, the fund management and the forex segments expanded strongly as global financial markets remained buoyant throughout the last three months of the year. The banks segment reversed from the decline in the preceding quarter, as both non-bank lending and net fees and commissions grew. Meanwhile, the insurance segment posted a sequential contraction in Q4, as the market for single-premium life insurance products slowed after two consecutive quarters of firm growth. For 2021 as a whole, the financial sector expanded by 7.4%, surpassing the 6.9% growth recorded the year before.

Chart 2.4 Finance & insurance and information & communications services continued to see positive growth momentum in Q4

QOQ SA % growth by segments in modern services



Source: DOS

The information & communications sector grew by 2.3% q-o-q SA in Q4, in line with the average growth in the preceding quarters of the year. The expansion in Q4 was mainly driven by the telecommunications and IT & information services segments. Growth in the former was boosted by strong mobile phone sales from new product launches, while the latter was buttressed by ongoing corporate investments in digitalisation. According to the National Business Survey 2021/2022 conducted by the Singapore Business Federation, 92% of firms surveyed in 2021 have either increased or maintained investments in digitalisation, up from 89% in 2020. Moreover, private sector gross fixed capital formation in machinery, equipment and intellectual property products recorded robust growth in 2021.

The domestic-facing sectors recovered slightly but continued to be weighed down by ongoing measures to slow infections

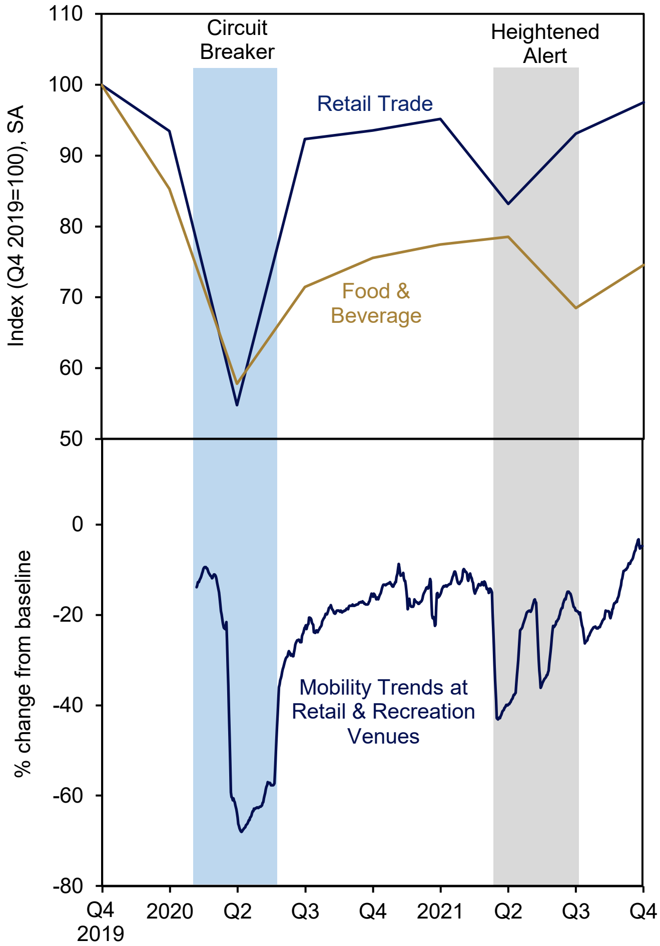
Domestic-oriented activities in general remained lacklustre in Q4, although there was some improvement in certain segments as social restrictions started to ease from early November. Consumer-facing industries such as food & beverage (F&B) services, retail and land transport have moved in tandem with mobility trends during the pandemic. These sectors were adversely hit during the circuit breaker period in Q2 2020 and suffered another setback around the middle of 2021 amid the different degrees of heightened alert measures in place to curb the spread of the virus **(Chart 2.5)**. Subsequently in Q4, the F&B segment grew by 8.9% q-o-q SA, as group sizes for dine-ins and social gatherings were raised from two to five in November[9], while demand for food caterers also increased. However, the activity level in the industry was still below that in the earlier part of the year, indicating that they had yet to recoup the output losses incurred during the period of the heightened alert measures, let alone the losses since the start of the pandemic. The land transport sector also remained weak as ridership continued to be constrained by default work-from-home arrangements. In comparison, the pickup of the retail industry from the trough of the crisis has been stronger

[9] Stabilisation Phase measures were in place from late September 2021 and gradually eased in November 2021.

and quicker, in part reflecting the general shift in demand towards essential and durable goods and away from high-touch services during the pandemic.

Chart 2.5 The retail and food & beverage sectors' performances have been boosted by the rise in mobility

Retail trade and food & beverage VA



Source: DOS and Google Community Mobility Report (Singapore)

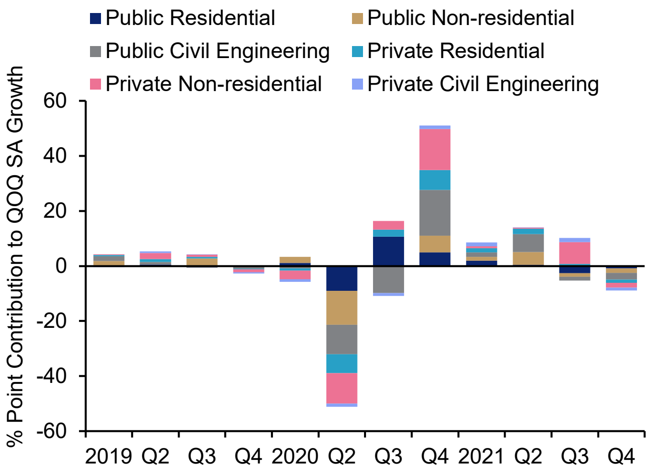
Note: The baseline for the mobility index is the median value for the corresponding day of the week during the five-week period from 3 Jan – 6 Feb 2020.

In the construction sector, activity was dampened by supply-side disruptions in Q4. It contracted by 2.1% q-o-q SA, reversing the 1.1% expansion in the previous quarter, as new border-entry restrictions on migrant workers were needed because of the Omicron variant. [10] Both public and private certified payments fell in Q4 with broad-based weakness across all subsectors **(Chart 2.6)**. For the year as a whole, the construction sector grew by around 20%, but output was some 25% below its pre-pandemic level.

[10] Since 4 December 2021, dormitory-bound S Pass and work permit holders in the construction, marine shipyard and processes sector are not allowed to make applications to enter Singapore via VTLs. Instead, workers can only come in via the more stringent work pass holder general lane.

Chart 2.6 Certified payments in the construction sector contracted in Q4

Certified payments in the construction sector



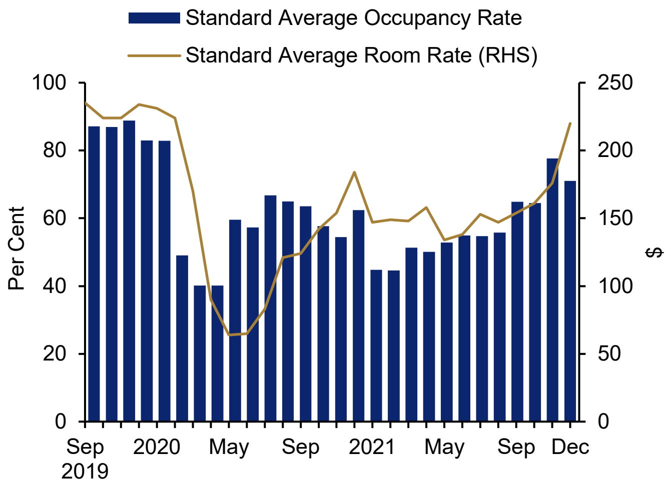
Source: BCA and Haver Analytics

Travel-related activity saw some modest support from border reopening to fully vaccinated visitors from selected markets

The expansion of the Vaccinated Travel Lanes (VTL) scheme in Q4 helped to kickstart the nascent recovery in the travel-related sector. MICE events had also resumed on a larger scale since mid-August, with up to 1,000 vaccinated attendees permitted for each gathering. Major events such as the Bloomberg New Economy Forum and the Milken Institute Asia Summit 2021 were held in Q4. Average monthly visitor arrivals tripled to 52,638 in Q4 from Q3, and air passengers carried increased by 58% q-o-q SA. More than a third of the 330,000 visitor arrivals to Singapore last year came in Nov–Dec, following the launch of the VTL in September. Consequently, the hotel occupancy rate rose to an average of around 70% in Q4, from 58% in Q3 **(Chart 2.7)**.

Chart 2.7 Hotel occupancy rates rose in Q4

Hotel statistics



Source: STB

Singapore's economic expansion should broaden in 2022

Barring fresh disruptions, GDP growth is expected to come in at 3−5% in 2022, the second year of above-trend growth. There should be a broadening of growth drivers to the domestic-oriented and travel-related sectors, with GDP growth projected to be more evenly distributed across sectors compared to last year. The domestic-oriented and travel-related sectors bore the brunt of the impact from COVID-19 in 2020 due to movement restrictions. While they managed to pick up from their troughs in 2021, activity levels remained constrained by the fluctuations in community infection rates and mobility measures. In comparison, the trade-related and modern services sectors—especially manufacturing and financial services—were less affected by the pandemic and led the recovery last year.

Further easing of domestic safe management measures and border restrictions that allow more economic activities to resume and accelerate would be underpinned by high vaccinations and pickup in booster rates. Recent developments in the use of oral antiviral drugs for treating the virus would also encourage the transition to a COVID-19 resilient environment.

Growth in the trade-related sector could ease in the months ahead

The sectors which led the economic recovery in 2021 should see some moderation in growth this year. The global electronics industry could experience lingering capacity constraints. Gartner is projecting global semiconductor revenue to increase by a creditable 9.4% in 2022, but it is a significant step-down from the 25% growth recorded last year. While Singapore's semiconductor manufacturers have invested in new production capacity in anticipation of firm global demand and ongoing semiconductor shortages, major capacity expansions, such as new manufacturing plants, are only expected to come on-stream progressively. Meanwhile, the wholesale trade sector is projected to grow at a broadly similar pace as last year, underpinned by strong demand for electronic parts and telecommunications & computers in the machinery, equipment and supplies segment.

Although cyclical and structural developments remain supportive of financial sector growth, short-term downside risks have increased

In the near term, the financial sector is expected to be uplifted by the cyclical recovery of the domestic and regional economies as the pandemic wanes. Certain segments will be further supported by structural developments. For instance, the fund management segment should continue to see significant fund inflows alongside the continued build-up of wealth in the region. More recently, the assets under management (AUM) of alternative asset classes, such as private equity and venture capital, has experienced tremendous growth, which is likely to continue. Activity in these asset classes should underpin firmer trend increases in fees & commissions for financial institutions. Meanwhile, the increasing prevalence of e-payments in the domestic and regional economies will benefit payments processing players.

However, short-term downside risks have increased. First, the impending rise of interest rates could weigh on the growth of lending activity by banks, even as interest margins improve. Second, sales of single-premium life insurance products, which increased substantially in recent years by serving as an attractive alternative to low-yielding bank deposits, could be dampened by the normalisation of bank deposit rates. Third, although global financial markets have started to price in monetary policy tightening in major economies, the risk of a faster-than-expected tightening could still dampen global market sentiment and negatively impact the fund management segment.

The consumer-facing sectors should see some pickup in activity as domestic restrictions are gradually relaxed

The gradual relaxation of domestic restrictions and improvement in consumer sentiment amid a recovery in labour market conditions should translate into higher activity in the consumer-facing sectors. With the easing of the default work-from-home posture from 3 January, F&B and transport firms have seen an uptick in business, particularly in the Central Business District. However, the maintenance of existing safe management measures in view of the Omicron variant will cap gains in the early part of 2022. The F&B and land transport industries are not likely to return to pre-COVID levels even by year-end as some dine-in and event restrictions could remain in place, the recovery in visitor arrivals is expected to be gradual, and firms are likely to deploy hybrid work arrangements that would cap increases in mobility. In comparison, the retail industry has thus far experienced a stronger recovery, and the resumption of international tourism should help the sector surpass pre-COVID levels this year, even as some leakage of demand from residents travelling abroad is anticipated.

Construction should gather momentum once supply-side constraints ease

The construction sector should resume its recovery in 2022, supported by a progressive easing of border restrictions on migrant workers. Nonetheless, the output of the sector is unlikely to reach pre-COVID levels even by year-end. In the first half of the year, activity in the construction sector will continue to be impeded by labour shortages due to border restrictions on the entry of migrant workers and elevated raw material costs. Some construction companies are expecting further project delays after new applications for S Passes or work permits to enter Singapore via the VTLs were halted. Prices of construction materials have also recorded significant increases over the past year, with prices of steel reinforcement bars for example having risen by 44% from 2020. In the latter part of this year, the easing of some supply-side constraints should support higher levels of construction activity given the steady level of construction demand and the backlog of works affected by the pandemic since 2020.

The recovery of the travel-related sector will be protracted

The travel-related sector will see a bumpy road to recovery, with progress dependent on the pandemic. A recovery to pre-COVID output levels is only likely after 2022 as travel restrictions could persist in some key visitor source markets, including those pursuing zero-COVID strategies and others with lower vaccination rates. Advanced economies such as the US, Europe and Japan, which accounted for 20% of inbound tourist arrivals in 2019, have achieved average vaccination rates of 72%. Meanwhile, vaccination rates in ASEAN-5, which comprised a-third of tourist arrivals in 2019, are at 66%.

3 Labour Market and Inflation

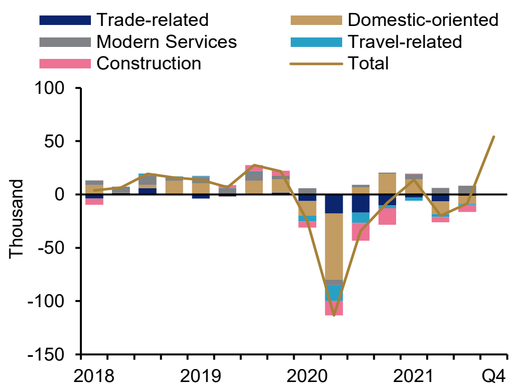
The labour market saw a broad-based tightening

In Q3 2021, total employment fell by a smaller 8,400 q-o-q, following the 19,900 contraction in the preceding quarter. Resident employment rose by 19,100, a near four-fold increase from the expansion in the preceding quarter. In comparison, the decline in non-resident employment worsened slightly to 27,500, from 24,700 over the same period. All broad sectors except construction saw an improvement in employment conditions in Q3 **(Chart 3.1)**. Employment in the trade-oriented sector registered a much slower pace of decline relative to the previous quarter as headcount rose in the transport equipment segment, a turnaround from the drop in Q2.[11] The employment decline in the domestic-oriented sector also moderated, mainly due to increasing headcount in the administrative & support services segment, as well as more muted contractions in the retail trade and food & beverage services segments, alongside the loosening of Phase 2 (Heightened Alert) measures in Q3. Meanwhile, the modern services sector continued to chalk up creditable employment gains.

MOM's preliminary estimates show that total employment expanded by 54,100 in Q4 2021, a positive turnaround from Q3, as resident employment picked up more robustly while non-resident employment ceased contracting. The expansion was broad-based across sectors, reflecting the confluence of strong seasonal hiring in retail trade and food & beverage services, a pickup in labour demand alongside the broader economic recovery as well as some alleviation in non-resident labour supply constraints as border measures were relaxed over most of Q4. The construction sector, in particular, accounted for more than a third of the pick-up in total employment in Q4, as entry approvals were resumed for fully vaccinated non-resident workers from early November.

Chart 3.1 Employment picked up across most sectors in H2

Q-o-q employment change

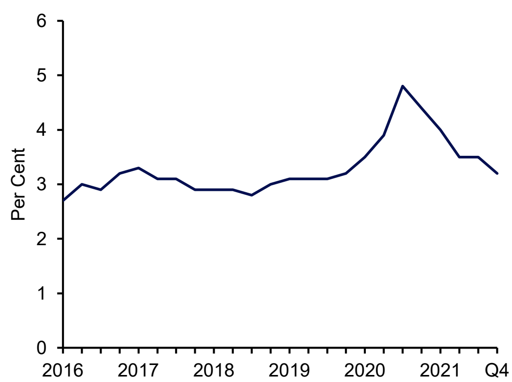


Source: MOM and EPG, MAS estimates

Note: Q4 2021 data reflects MOM's preliminary estimates.

Chart 3.2 The resident unemployment rate fell in Q4 and is almost back to pre-pandemic levels

Seasonally adjusted resident unemployment rate



Source: MOM

Note: Q4 2021 data reflects MOM's preliminary estimates.

11 The increase likely reflected higher inflows of non-resident workers as the marine industry's association undertook pilot initiatives to bring in workers in a calibrated manner to alleviate the manpower crunch.

Resident wage growth stayed above pre-COVID rates amid improvements in labour market conditions

A range of labour market indicators affirm that employment conditions continued to improve over H2 last year. Fewer workers were placed on short work-week or temporary layoff in Q3, while the seasonally adjusted number of job vacancies rose further to 98,700 in September, from the high of 92,100 recorded in June. This reflected in part the continued decline in non-resident employment in Q3 as inflows of non-resident workers remained constrained by border restrictions. At the same time, retrenchments registered a broad-based decline across sectors in the same quarter. MOM's preliminary data indicates that retrenchments likely extended its decline in Q4, with most retrenchments attributed to re-organisation and restructuring rather than recessionary conditions.

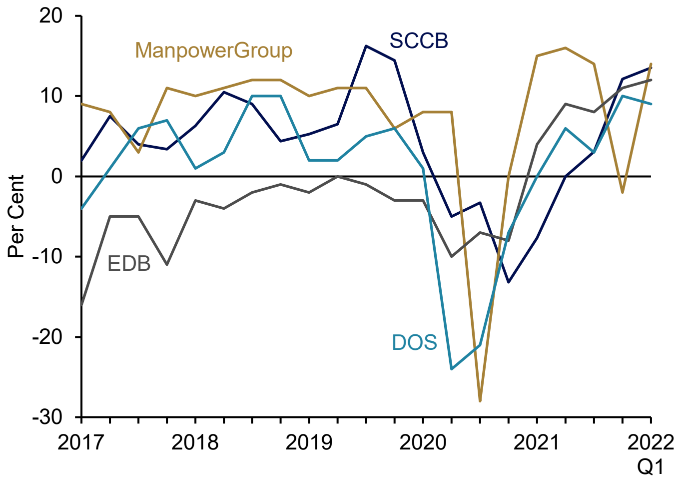
Overall, the sustained and relatively broad-based increase in resident employment and decline in retrenchments led to a steady fall in the resident unemployment rate from its last peak of 3.7% in July 2021 to 3.2% in December 2021 **(Chart 3.2)**. The return of the resident unemployment rate to around pre-COVID levels has notably occurred despite a surge in resident labour force participation rate to a record high in 2021. Amid nascent signs of a tightening labour market, resident wage growth stayed elevated at 3.8% y-o-y in Q3, unchanged from Q2 and slightly above the 2010–19 average of 3.7%.

Wage growth should step up this year as the labour market further tightens

Various employment surveys suggest that labour market conditions are expected to improve in H1 2022 as the economic recovery continues apace **(Chart 3.3)**. MOM's Labour Market Advance Release for 2021 also noted that the proportion of companies with plans to expand headcount in the quarter ahead edged up to 66.1% in December 2021, from 64.4% in September 2021. Domestic labour market conditions should therefore continue to tighten over the year, even as a gradual recovery in non-resident labour supply helps to relieve manpower shortages. Wage pressures are expected to be relatively firm over 2022, although a survey by MOM indicated that firms remain cautious in raising wages. Only 24.5% of companies polled in December 2021 indicated plans to raise wages within the upcoming quarter, lower than the previous two surveys of 32.1% in June and 24.7% in September.

Chart 3.3 More firms expect to increase their headcount in Q1 2022 and Q2 2022

Indicators on hiring outlook



Source: DOS, EDB, Manpower Group Singapore, Singapore Commercial Credit Bureau (SCCB)

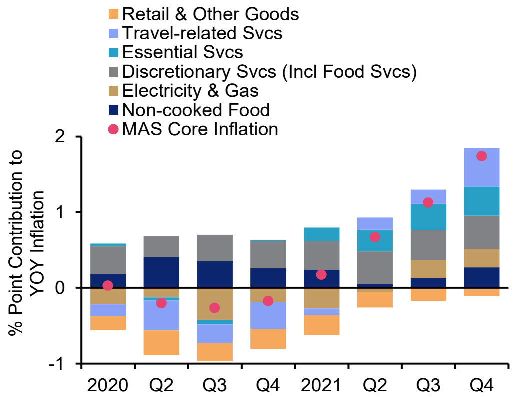
Note: Employment outlook for business expectations surveys conducted by DOS and EDB are forecasts for the next six months. For example, the readings for Q1 2022 refer to firms' employment forecasts for January to June 2022.

Price pressures in the Singapore economy broadened and gathered pace in Q4 2021

MAS Core Inflation rose to 1.7% y-o-y in Q4 2021, from 1.1% in Q3, mainly reflecting higher travel-related services and non-cooked food inflation **(Chart 3.4)**. In tandem, CPI-All Items inflation stepped up to 3.7% from 2.5%, with the larger uptick reflecting the additional effect of stronger private transport and accommodation inflation **(Chart 3.5)**. Core and headline inflation ended the year at 2.1% y-o-y and 4.0%—the highest levels since July 2014 and February 2013—respectively.

Chart 3.4 Travel-related services and non-cooked food drove most of the rise in core inflation in Q4

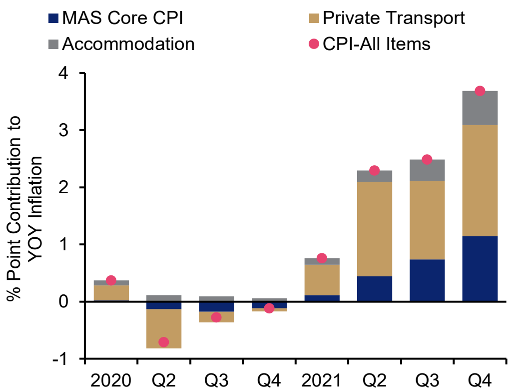
% Point contribution to MAS Core inflation



Source: DOS and EPG, MAS estimates

Chart 3.5 Private transport and accommodation inflation rose further

% Point contribution to CPI-All Items inflation

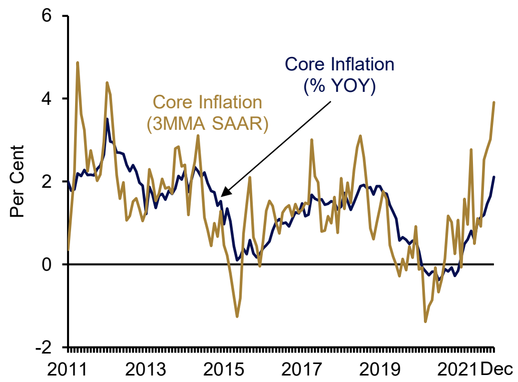


Source: DOS and EPG, MAS estimates

While the low base a year ago accounts for part of the elevated Q4 2021 y-o-y core inflation, most of the boost reflects a strengthening in core inflation momentum. The 3-month moving average (3MMA) of the m-o-m change in the core CPI (seasonally adjusted) rose to an annualised rate of 3.2% in Oct–Dec, from its low of 0.5% during the Phase 2 (Heightened Alert) period in June **(Chart 3.6)**. At the same time, price pressures broadened across a wider range of components in Q4. The proportion of core CPI items experiencing an above historical average rate of inflation picked up to 56% in Q4, from 43% in Q3 and 33% in H1 2021 **(Chart 3.7)**.

Chart 3.6 The momentum of core price increases has picked up and…

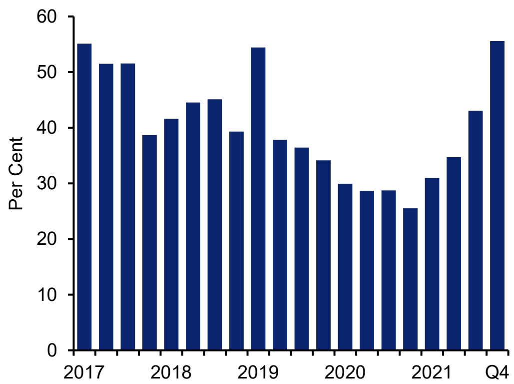
Measures of inflation



Source: DOS and EPG, MAS estimates

Chart 3.7 …inflationary pressures have broadened

Proportion of core CPI with inflation above historical average



Source: EPG, MAS estimates

Note: The proportion is calculated by taking the sum of weights of core CPI items that experienced price increases above the 2015–19 average over the sum of weights of all core CPI items, excluding goods and services that were newly introduced in the 2019-based CPI.

Higher services inflation, partly induced by the relaxation in domestic safe distancing and border restrictions, drove most of the rise in core inflation

Travel-related[12] services contributed to slightly more than half of the increase in core inflation in Q4 2021 from the preceding quarter. This was due in part to the re-incorporation of more travel-related prices in the CPI following the partial normalisation of border controls and expansion of VTLs over H2. In particular, airfares stepped up to 13.4% y-o-y in Q4, a five-fold increase from the 2.5% rise in Q3, largely reflecting the addition of mandatory COVID-related test costs, incurred both domestically and abroad, into the CPI for airfares.[13]

[12] Mainly includes holiday expenses and airfares.

[13] Airfares for routes that are open for leisure travel under the VTLs ceased to be imputed in the CPI and now reflect actual airfares as well as the mandatory COVID-19 test costs faced by travellers under the prevailing VTL rules. As of December 2021, the airfares CPI remained largely imputed.

Meanwhile, other forms of discretionary services inflation (including food services) also picked up in Q4. Prices of hawker meals increased more steeply, as stallholders faced higher imported food costs and utilities fees. Waivers of rentals for NEA-managed stall also ceased from mid-August. At the same time, domestic restrictions on social gathering sizes and dining-in curbs were also eased in Q4, contributing to firmer consumer demand for dining and recreational & cultural services. Inflation in the latter, which includes fees for fitness centres, sports lessons as well as recreational, cultural & art lessons, rose to 1.9% y-o-y in Q4 from 1.4% in Q3.

Non-cooked food inflation picked up as higher imported food prices filtered through to consumer prices, while electricity & gas inflation stayed elevated

Non-cooked food inflation rose to 2.5% y-o-y in Q4, from 1.2% in Q3, on account of a broad-based pickup in inflation across the major food categories (bread & cereals, vegetables, meat and seafood). This was partly driven by higher imported inflation of non-cooked food items as adverse weather conditions, port congestions and labour shortages disrupted global and regional food supplies. For instance, Singapore's vegetable prices saw a marked step-up as vegetable harvests in parts of Malaysia were affected by heavy rainfall and floods from late September. Poultry prices also rose on the back of labour shortages in Malaysia and more costly feed which in turn stemmed from higher global prices of corn and soya beans.

Meanwhile, electricity & gas inflation remained elevated at 9.5% y-o-y in Q4, even as it edged down from the 9.8% in the preceding quarter. On a q-o-q basis, electricity & gas costs rose by 4.7% in Q4 as the regulated electricity and gas tariffs were raised on the back of higher global oil prices. Domestically, the decline in the number of households on electricity plans under the Open Electricity Market (OEM), due to the exit of several electricity retailers, further contributed to the sequential increase in the electricity CPI, as affected households either reverted to paying the regulated tariff charged by SP Group or subscribed to new OEM plans, whose rates had increased over the year.[14]

Firm demand and tight supply continued to support rising non-core CPI inflation

Private transport inflation stepped up to 15.9% y-o-y in Q4, from 11.4% in Q3, contributing close to half of the increase in headline inflation. Car prices rose over H2 last year amid a sharp increase in COE premiums, reflecting both strong demand for cars and lower COE quotas **(Chart 3.8)**. Average car COE premiums climbed to around $68,500 in Nov—Dec, with Category B premiums surpassing $81,000 in November—the highest price recorded since March 2014.

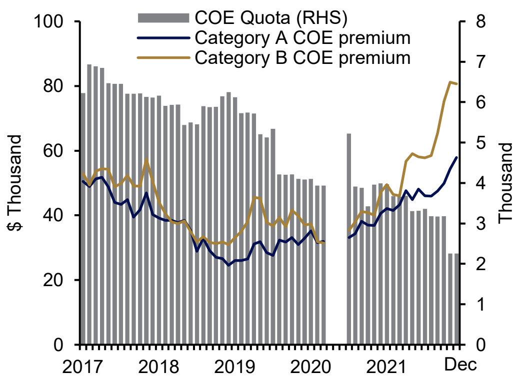
Accommodation inflation rose further to 2.7% y-o-y in Q4, from 1.7% in the preceding quarter as housing rents continued their upward trend **(Chart 3.9)**. With the supply of private housing units completed last year falling short of historical levels, firm leasing demand led to a pick-up in accommodation inflation.[15]

14 Three electricity retailers (Ohm Energy, Best Electricity and iSwitch) exited in Q4 2021.

15 According to URA's Q4 2021 Real Estate Statistics, 6,388 private residential units (0 executive condominium) were completed in 2021. This is higher than the 4,061 units of private residential and executive condominium completed in 2020 but well below the average completion rate of 18,256 per annum from 2015-19.

Chart 3.8 Car COE premiums rose further in Q4 as supply of COEs shrank

Car COE premiums and COE quota

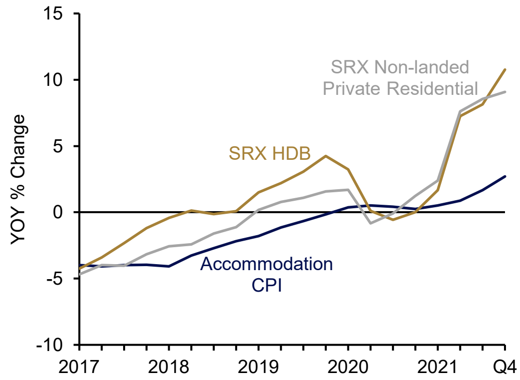


Source: LTA and EPG, MAS estimates

Note: COE bidding was halted in Apr–Jun 2020.

Chart 3.9 Housing rents continued to increase in Q4 and at a steeper pace

Accommodation CPI, SRX HDB and non-landed private residential rental indices



Source: DOS and SRX

Core inflation is expected to pick up further in H1 2022 before easing

Global inflation has risen further recently and could stay high for some time before easing towards the end of the year. In the near term, crude oil prices will be supported by tight supply conditions, as well as heightened geopolitical risks in the global energy market. Bottlenecks in global transportation and labour shortages in a number of Singapore's major trading partners are also likely to persist in the near term. While ongoing external supply constraints should ease in the second half of 2022, leading to some moderation in imported inflation, there remain upside risks to inflation from pandemic-related and geopolitical shocks affecting global supply chains.

Domestically, the labour market is projected to tighten and lead to firmer wage pressures over the year. Businesses could pass through accumulated costs to consumer prices against the backdrop of stronger consumer spending. For the non-core CPI components, car and accommodation cost increases are likely to remain robust in the near term, keeping headline inflation elevated.

All in, MAS Core Inflation is forecast to pick up further in the near term, and could reach 3% by the middle of the year before easing in the second half of 2022 as external inflation recedes. Rising cost of air travel is expected to account for a significant part of the increase in core inflation in the near term. For 2022 as a whole, MAS Core Inflation is projected to average 2–3% while CPI-All Items inflation is forecast to come in within 2.5–3.5%.

4 Monetary Policy

Another pre-emptive tightening of monetary policy in January

Despite the Omicron variant's temporary dampening effect on global economic activity, Singapore's major trading partners are projected to expand at an above-trend pace for a second consecutive year in 2022. The Singapore economy will grow at a creditable pace of 3–5% this year, driven by the externally-oriented sectors, while prospects for the domestic-oriented and travel-related sectors will also improve with the expected easing of safe management measures and border restrictions. As a result, the output gap will turn slightly positive as aggregate demand rises above the economy's supply capacity.

The outlook for Singapore's inflation has shifted higher since October last year. MAS Core Inflation is now expected to pick up further in the near term, and could reach 3% by the middle of the year. This largely reflects the step up in global oil prices and ongoing frictions in global supply chains which are anticipated to persist for some time, causing energy-related and food prices to stay elevated. The domestic labour market will also continue to tighten, resulting in stronger wage pressures. These accumulating business costs are likely to filter through to higher services prices amid the broader recovery in consumption demand. Car and accommodation cost increases are also likely to remain firm in the near term. Reflecting the significant shift in the inflation outlook, the forecast ranges for MAS Core Inflation and CPI-All Items inflation were revised to 2.0–3.0% and 2.5–3.5%, respectively, up from 1.0–2.0% and 1.5–2.5% in October 2021. While the supply-side inflationary pressures are expected to moderate in the second half of the year, the risks remain skewed to the upside.

Accordingly, MAS raised the rate of appreciation of the S$NEER policy band slightly in an unscheduled policy announcement in January 2022. The width of the policy band and the level at which it is centred was unchanged. This further tightening builds on the pre-emptive shift to an appreciating stance in October 2021 and is appropriate for ensuring medium-term price stability.

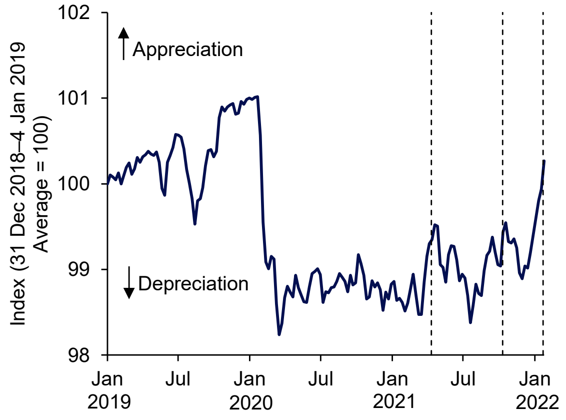
The S$NEER has appreciated within the upper half of the policy band since October 2021, with interest rates edging up slightly

Since October 2021, the S$NEER has fluctuated within the upper half of the policy band. The trade-weighted index experienced episodes of depreciation pressures when expectations that the Federal Reserve would begin tightening monetary policy sooner than expected resulted in broad-based US$ strength. However, the S$NEER picked up in December as public health measures were tightened by more abroad than in Singapore amid the rapid spread of the Omicron variant. The S$NEER strengthened further in January following MAS' unscheduled monetary policy tightening. **(Chart 4.1)**.

Since October, the 3-month US$ LIBOR has increased by 36 basis points. In tandem, domestic interest rates have also edged up over the same period. The 3-month Swap Offer Rate (SOR) and 3-month compounded Singapore Overnight Rate (SORA) rose by 20 and 6 basis points respectively while the 3-month S$ SIBOR remained broadly unchanged over the same period **(Chart 4.2)**.

Chart 4.1 The S$NEER appreciated in the upper part of the policy band in recent months

S$NEER, weekly average

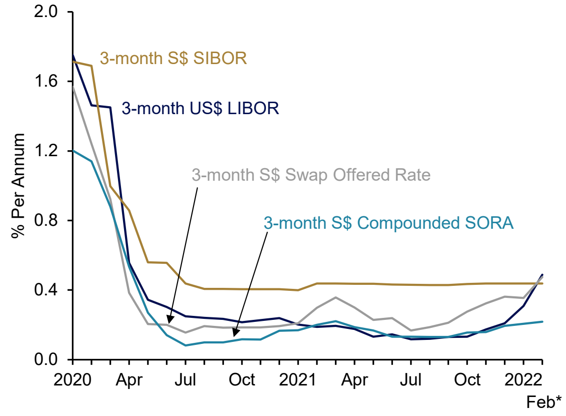


Source: EPG, MAS estimates

Note: Vertical dashed lines indicate the last three releases of the MPS.

Chart 4.2 Domestic interest rates have edged up since October

US$ and S$ interest rates, end of month



Source: MAS, ABS Benchmarks Administration Co Pte Ltd and ICE Benchmark Administration Ltd

* As at 16 February 2021

The Budget charts the way forward for the post-pandemic economy

Budget 2022 was delivered against a backdrop of improving economic prospects, even as some sectors of the economy remained under COVID-19 strains. Against this backdrop, Budget 2022 struck a balance between the need to continue to cushion the most vulnerable individuals and sectors from the impact of the pandemic in the short term, and focusing on the long-term structural issues confronting Singapore in the post-pandemic world. On the former, there were support packages to provide targeted assistance to businesses and households. For example, a $500 million Jobs and Business Support Package was introduced that included a Small Business Recovery Grant to help affected SMEs with cashflow concerns. The aviation sector also continued to receive help to preserve Singapore's status as an international aviation hub.

Amid the ongoing cost of living pressures on households, the government announced a $560 million Household Support Package to help Singaporeans with their expenses. Under this Package, GST Voucher – U-Save rebates would be doubled for the rest of the year, children below the age of 21 would receive a $200 top-up into their education-related accounts, and households would receive $100 of CDC Vouchers. For businesses whose cashflows have been affected by the higher cost of materials and electricity, the government extended various loan schemes for six months to a year.

Beyond alleviating the near-term economic strain on households and businesses, Budget 2022 announced several initiatives to accelerate the transformation of the Singapore economy. Building on the wave of digitalisation induced during the pandemic, the Budget allocated $200 million to schemes that would further enhance the digital capabilities of businesses and workers. The government also announced investments in Singapore's broadband infrastructure and future technologies such as 6G. The Budget also set aside around $600 million to raise the productivity of local SMEs under the Productivity Solutions

Grant. For larger firms, the Singapore Global Enterprises and Singapore Global Executive Programme schemes were introduced to provide more bespoke assistance to innovate, scale up and invest in overseas markets.

For workers, Budget 2022 introduced the SkillsFuture Career Transition Programme to enhance industry-oriented training, and made company attachments for mid-career workers (under the SGUnited Mid-Career Pathways Programme) a permanent feature of the training and placement ecosystem. The Budget also sought to help employers redesign jobs to better harness technology and the upgraded skills of their workers, through programmes such as Company Training Committees led by NTUC.

At the same time, significant refinements were made to foreign worker policies to ensure complementarity of the non-resident workforce. The minimum qualifying salaries for EP and S Pass applications were raised, with the aim of ensuring that EP and S pass holders would eventually be comparable in quality to the top one-third of local PMET, and Associate Professionals & Technicians, respectively. Tier 1 levies for S Pass holders would also be progressively raised. In addition, work permit policies in the construction and process sectors would be adjusted to improve productivity, such as through the reduction of the Dependency Ratio Ceiling and replacing the Man-Year Entitlement framework with a new levy framework from 1 January 2024.

The government reiterated its strong commitment to tackling climate change by bringing forward the timeline for Singapore to achieve net zero emissions. To achieve this, the carbon tax will be increased in steps, from the current $5 per tonne, to $25 in 2024, $45 in 2026, and eventually reaching $50–$80 per tonne by 2030. To support businesses and households as the carbon tax is raised, the Budget introduced a transition framework. Existing companies would be granted emissions allowances and, from 2024, international carbon credits would be available for offsets of up to 5% of taxable emissions, providing impetus for the development of carbon markets in Singapore. The impact of the higher carbon tax on households' utility bills would be mitigated through additional U-Save rebates, to be announced ahead of the first carbon tax increase in 2024.

Another major pillar of Budget 2022 was strengthening the social compact and making growth more inclusive. As more lower-wage workers will be brought under the Progressive Wage Model over the next two years, the Budget announced the Progressive Wage Credit Scheme (PWCS) to provide transitional support to businesses by co-funding the wage increases between 2022 to 2026. In tandem, the Workfare Income Supplement would also be significantly enhanced—the payouts and qualifying income cap were raised, and the scheme extended to younger workers. In total, the government would spend $9 billion over the next five years on the PWCS and enhanced Workfare.

Budget 2022 announced considerable enhancements to the tax structure, in order to build a fairer and more resilient tax system. First, the top personal income tax rates would be raised to 23–24%, up from 22% currently, with effect from the Year of Assessment 2024. Second, property taxes would be increased across the board for non-owner-occupied residential properties, while property tax for owner occupied residential properties would be raised for the portion of Annual Value in excess of $30,000. Buyers of luxury cars would also pay a higher ARF rate.

In view of the near-term economic outlook, Budget 2022 delayed the increase in the GST and staggered the increase over two steps. The first increase from 7% to 8% would take place on 1 January 2023, with a further step up to 9% on 1 January 2024. The government also made considerable commitments to ensure that lower- and middle-income families would be shielded from the effects of the GST. An additional $640 million on top of the previously announced $6 billion Assurance Package sought to ensure that the additional GST burden would be offset for the majority of Singaporean households for at least five years. In tandem, the permanent GST Voucher scheme would be significantly enhanced such that low-income and retiree households would see continuing support.

For FY 2022, the government has projected a budget deficit of $5.4 billion (0.9% of GDP), slightly smaller than the revised deficit for FY2021. This will mark the third consecutive year of a budget shortfall.

Monetary and fiscal policies have shifted as the economic recovery consolidated

Macroeconomic policies remain complementary and have shifted pre-emptively in line with the evolving cyclical developments of the economy. As the overall economy gains a firmer footing over this year, it is appropriate for fiscal policy to return to focus on enabling economic restructuring towards productivity-driven growth. This was already underway before the pandemic, and such restructuring efforts will build on the pandemic-induced impetus for firms to automate and develop agile capabilities. For the sectors whose recovery remains subdued, some fiscal support will ensure that capital destruction and firm exits are capped so that these sectors are poised to speedily ramp up once demand resumes more fully. Monetary policy settings have been adjusted pre-emptively to contain underlying inflationary pressures, to ensure price stability in the medium term.

Table 4.1 Summary of Fiscal Position

	FY2020		FY2021 Revised		FY2022 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	67.4	14.0	80.4	14.9	81.8	14.3
Total Expenditure	86.4	18.0	98.4	18.2	102.4	17.9
Operating Expenditure	72.9	15.2	81.5	15.1	85.1	14.9
Development Expenditure	13.4	2.8	16.9	3.1	17.3	3.0
Primary Surplus/Deficit (−)	**(19.0)**	**(4.0)**	**(18.0)**	**(3.3)**	**(20.7)**	**(3.6)**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	33.5	7.0	7.9	1.5	2.2	0.4
Basic Surplus/Deficit (−)	**(52.5)**	**(10.9)**	**(25.9)**	**(4.8)**	**(22.8)**	**(4.0)**
Less: Top-ups to Endowment and Trust Funds	17.3	3.6	-	0.0	4.1	0.7
Add: NIR Contribution	18.2	3.8	20.3	3.8	21.6	3.8
Less: Interest Costs and Loan Expenses	-	0.0	-	0.0	0.1	0.0
Budget Surplus/Deficit (−)	**(51.6)**	**(10.8)**	**(5.6)**	**(1.0)**	**(5.4)**	**(0.9)**
Add: Capitalisation of Nationality Significant Infrastructure	-	0.0	0.7	0.1	2.4	0.4
Less: Depreciation of Nationality Significant Infrastructure	-	0.0	-	0.0	-	0.0
Fiscal Position	**(51.6)**	**(10.8)**	**(5.0)**	**(0.9)**	**(3.0)**	**(0.5)**

Source: Ministry of Finance
Notes: Figures may not tally due to rounding.

Selected Indicators

GENERAL INDICATORS, 2021			
Land Area (Sq km)	733.1	Literacy Rate* (%)	97.6
Total Population ('000)	5,453.6	Real Per Capita GDP (US$)	64,154
Labour Force ('000)	3,607.6	Gross National Savings (% of GNI)	48.3
Resident Labour Force Participation Rate (%)	70.5		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2021		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2021	
Manufacturing	22.3	Private Consumption	31.5
Wholesale Trade	17.9	Private Gross Fixed Capital Formation	19.6
Finance & Insurance	14.6	Public Consumption	11.8
Other Services Industries	10.5	Public Gross Fixed Capital Formation	4.0
Transportation & Storage	6.1	Increase in Stocks	1.2
Professional Services	5.8	Net Exports of Goods & Services	31.9
Information & Communications	5.6		
Administrative & Support Services	3.6		
Real Estate	2.9		
Construction	2.9		
Retail Trade	1.4		
Food & Beverage Services	0.9		
Accommodation	0.5		

MAJOR EXPORT DESTINATIONS (% SHARE), 2021		MAJOR ORIGINS OF IMPORTS (% SHARE), 2021	
Total Exports (S$ Billion)	**614.1**	**Total Imports (S$ Billion)**	**545.9**
China	14.8	China	13.4
Hong Kong	13.1	Malaysia	13.2
Malaysia	9.2	Taiwan	12.6
US	8.4	US	10.0
Indonesia	6.3	Japan	5.4
ASEAN	26.5	ASEAN	22.8
NEA-3	22.5	NEA-3	18.8
EU	7.5	EU	10.2

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2021		MAJOR IMPORTS BY COMMODITY (% SHARE), 2021	
Domestic Exports (S$ Billion)	**279.0**	**Total Imports (S$ Billion)**	**545.9**
Mineral Fuels	30.7	Electronics	34.1
Chemicals	19.8	Mineral Fuels	18.5
Electronics	16.1	Machinery & Transport Equipment (ex. Electronics)	17.2
Machinery & Transport Equipment (ex. Electronics)	12.3	Chemicals	8.3
Manufactured Articles	9.4	Manufactured Articles	8.2
Food and Live Animals	4.2	Manufactured Goods	5.1

Note: Labour market statistics were obtained from the Ministry of Manpower, while trade and index of industrial production (IIP) data were provided by Enterprise Singapore and EDB respectively. All other data in this document were obtained from the Department of Statistics, or Ministry of Trade and Industry, unless otherwise stated.

Overall Economy	2020	2021	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	Nov 21	Dec 21
GDP at current prices (S$ bil)	476.4	533.4	125.4	129.1	132.1	133.6	138.5	na	na
GDP (US$ bil)	345.7	396.9	93.2	96.9	99.1	98.8	102.1	na	na
Real GDP Growth (YOY % change)	−4.1	7.6	−0.9	2.0	15.8	7.5	6.1	na	na
Real GDP Growth (QOQ SA % change)	na	na	3.8	3.0	−0.8	1.5	2.3	na	na
By Sector (YOY % change):									
Manufacturing [1/]	7.5	13.2	11.4	11.5	18.2	7.9	15.5	14.1	15.6
Construction	−38.4	20.1	−29.0	−22.2	118.9	69.9	2.9	na	na
Wholesale Trade	−1.7	3.9	1.6	4.0	3.0	5.5	3.3	na	na
Retail Trade	−18.5	10.2	−6.2	1.7	51.8	0.9	4.3	na	na
Transportation & Storage	−20.1	5.0	−21.2	−13.1	22.2	9.2	7.5	na	na
Accommodation	−13.9	1.7	−7.1	−1.5	10.4	−5.7	-5.1	na	na
Food & Beverage Services	−28.6	3.0	−24.6	−9.2	36.0	−4.1	-1.5	na	na
Information & Communications	8.4	12.2	10.1	9.4	14.4	13.9	11.2	na	na
Finance & Insurance	6.9	7.4	6.8	5.2	10.4	8.5	5.6	na	na
Real Estate	−13.7	10.7	−1.8	−1.7	29.2	19.9	1.6	na	na
Professional Services	-8.0	4.4	−7.9	−4.3	11.8	5.9	4.9	na	na
Administrative & Support Services	−16.7	-3.8	−20.2	−15.5	−0.1	0.2	2.5	na	na
Other Services Industries	-8.1	5.2	−5.1	0.2	16.5	3.8	2.4	na	na
By Expenditure Component (YOY % change):									
Consumption	**−6.7**	**4.8**	**−5.8**	**−2.2**	**16.9**	**4.0**	**3.0**	**na**	**na**
Private	−12.9	4.5	−10.7	−6.9	23.0	4.1	2.6	na	na
Public	13.3	4.5	9.7	9.5	0.7	3.3	3.6	na	na
Gross Fixed Capital Formation	**−14.2**	**19.6**	**−4.3**	**3.2**	**42.9**	**32.8**	**8.3**	**na**	**na**
Private	−11.6	19.7	0.1	8.8	38.3	28.8	8.6	na	na
Public	−25.0	18.8	−23.4	−16.5	70.1	59.7	7.4	na	na
External Demand	**−0.2**	**6.8**	**−0.8**	**−0.8**	**14.2**	**6.9**	**7.9**	**na**	**na**

Source:
[1/] Monthly data from Index of Industrial Production
na: Not available

Trade	2020	2021	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	Nov 21	Dec 21
Total Exports, fob (YOY % change)	**−3.2**	**19.1**	**−2.9**	**6.9**	**26.0**	**17.4**	**26.9**	**31.0**	**28.0**
Non-Oil Domestic Exports	4.3	12.1	−0.5	9.6	10.1	9.0	20.1	24.2	18.4
Re-Exports	0.1	19.2	3.4	13.6	26.3	16.2	21.1	19.6	26.9
Total Imports, cif (YOY % change)	**−7.4**	**20.4**	**−7.6**	**2.7**	**28.6**	**20.9**	**31.0**	**31.7**	**35.4**
Wage-price Indicators									
Unemployment Rate (SA, %)	3.0	2.6	3.3	2.9	2.7	2.6	2.4 #	2.5	2.4
Average Nominal Wages (S$ per month)	5,629	na	5,877	6,159	5,474	5,412	na	na	na
Consumer Price Index Inflation (YOY % change)	−0.2	2.3	−0.1	0.8	2.3	2.5	3.7	3.8	4.0
MAS Core Inflation (YOY % change)	−0.2	0.9	−0.2	0.2	0.7	1.1	1.7	1.6	2.1
Financial Indicators									
S$ Exchange Rate Against: (end-period)									
US Dollar	1.3221	1.3517	1.3221	1.3472	1.3444	1.3611	1.3517	1.3686	1.3517
100 Japanese Yen	1.2814	1.1744	1.2814	1.2152	1.2168	1.2161	1.1744	1.2042	1.1744
Euro	1.6249	1.5295	1.6249	1.5770	1.6001	1.5794	1.5295	1.5463	1.5295
Interest Rates (end-period, % p.a.)									
3-month Fixed Deposit Rate *[1]	na	na	na	na	na	0.67	na	na	na
3-month S$ SIBOR [2/]	0.41	0.44	0.41	0.44	0.43	0.43	0.44	0.44	0.44
Prime Lending Rate *[2]	5.25	na	5.25	5.25	5.25	na	na	na	na
Money Supply (end-period)									
Broad Money, M2 (YOY % change) *	na	na	na	na	na	na	na	na	na
Straits Times Index (end-period) [3/]	**2,843.8**	**3,123.7**	**2,843.8**	**3,165.3**	**3,130.5**	**3,086.7**	**3,123.7**	**3,041.3**	**3,123.7**
YOY % change	−11.8	9.8	−11.8	27.6	20.9	25.1	9.8	8.4	9.8

Source:
[2/] ABS Benchmarks Administration Co Pte Ltd
[3/] Straits Times Index from SGX
na: Not available
#: Preliminary estimates
*: MAS' Monthly Statistical Bulletin changes wef July 2021 and not applicable to compare with historical data.
*[1]: Since Q3 2021, banks' interest rates have been published on a quarterly basis.
*[2]: Discontinued from July 2021.

Government Budget [4/]	2020	2021	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	Nov 21	Dec 21
Operating Revenue (S$ mil)	62,127	83,117	18,520	23,032	21,809	21,281	16,994	na	na
Total Expenditure (S$ mil)	**83,511**	**91,606**	**19,858**	**29,636**	**18,391**	**21,564**	**22,016**	**na**	**na**
Operating Expenditure	68,660	75,193	17,347	24,706	14,021	17,793	18,673	na	na
Development Expenditure	14,851	16,413	2,511	4,929	4,370	3,771	3,343	na	na
Primary Surplus/Deficit (S$ mil)	**-21,384**	**-8,489**	**-1,338**	**-6,603**	**3,418**	**-283**	**-5,022**	**na**	**na**
% of GDP	-4.5	-1.6	-1.1	-5.1	2.6	-0.2	-3.6	na	na
Balance of Payments									
Current Account Balance (% of GDP)	**16.8**	**18.1**	**14.0**	**13.7**	**20.1**	**20.0**	**18.6**	**na**	**na**
Goods Balance	30.0	29.8	28.8	25.4	32.3	30.2	31.1	na	na
Services Balance	1.7	1.6	1.8	1.8	2.2	2.2	0.2	na	na
Primary Income Balance	-13.4	-12.0	-15.0	-12.7	-12.9	-11.0	-11.7	na	na
Secondary Income Balance	-1.5	-1.2	-1.5	-0.9	-1.4	-1.4	-1.1	na	na
Capital & Fin Account Balance (% of GDP)	**-4.6**	**2.1**	**-15.0**	**-10.6**	**4.6**	**-1.7**	**15.1**	**na**	**na**
Direct Investment	-12.5	-14.6	-13.8	-17.3	-16.7	-14.2	-10.6	na	na
Portfolio Investment	17.5	14.4	22.6	9.9	21.0	17.9	8.8	na	na
Financial Derivatives	-0.4	0.8	-1.7	-0.2	-0.8	0.8	3.1	na	na
Other Investment	-9.2	1.6	-22.1	-3.0	1.1	-6.1	13.8	na	na
Overall Balance (% of GDP)	**21.7**	**16.7**	**29.3**	**25.0**	**16.4**	**22.5**	**3.6**	**na**	**na**
Official Foreign Reserves (US$ mil) [5/]	**362,305**	**417,904**	**362,305**	**379,754**	**398,357**	**416,751**	**417,904**	**412,959**	**417,904**
Months of Imports	13.2	12.4	13.2	13.6	13.2	13.2	12.4	12.5	12.4

Source:
[4/] Ministry of Finance
[5/] MAS
na: Not available