Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

13 August 2021

Highlights

- **The global economy is recovering, but disparities in vaccination rates and in degrees of policy support have contributed to cross-country variation in economic performance.** Global economic output regained its pre-pandemic level in Q1 2021. While many countries were hit by another COVID-19 infection wave in Q2, ramping up their inoculation drives has allowed some major economies to re-open, facilitating more rapid recoveries. Many regional economies with lower vaccination rates, however, have been compelled to re-tighten public health measures, with attendant impact on activity. The resulting divergence in economic performance was also exacerbated by more generous levels of policy support in the advanced economies than in Asia ex-Japan.

- **The global recovery is expected to become more broad-based as the year progresses and more countries reach high vaccination rates.** Asia ex-Japan economies are expected to be supported by strong global demand for exports and improved containment of local infection surges. Global growth is projected at 6.2% in 2021, moderating to 4.7% in 2022. **However, the pandemic remains a material risk to the outlook.** The emergence of new, vaccine-resistant strains could trigger a broader re-imposition of movement restrictions. The policy space available to authorities to respond to further shocks has narrowed in many countries.

- **Temporary factors have contributed to a rise in headline inflation this year.** With parts of global supply chains experiencing periodic shutdowns or constraints due to movement restrictions, supply bottlenecks have induced price increases of certain products, exacerbating low base effects in boosting year-on-year inflation. However, these factors are expected to ease, while the global output gap is forecast to remain negative until mid-2022, restraining core inflation. Global headline inflation is projected to rise to 2.5% in 2021, and ease to 2.3% in 2022.

- **A rise in indebtedness across Asian economies during the pandemic has increased regional financial system vulnerability to sharp shifts in economic conditions.** A more pronounced and persistent rise in inflation than expected, leading to a more abrupt tightening in global policy settings and financial conditions, could strain borrowers with higher financing needs. The risks for regional economies would increase if this coincided with relatively severe local COVID-19 outbreaks.

- **The Singapore economy contracted by 1.8% q-o-q SA in Q2 2021, its first sequential decline since Q2 2020 at the depth of the COVID-led recession.** This pullback was largely due to the tightening of domestic restrictions amid a resurgence in community infections. Nevertheless, the impact of these measures was not as severe as those during the circuit breaker last year, as most businesses were still able to operate. Meanwhile, the manufacturing sector saw some moderation in Q2, following robust growth in the preceding quarter. The reopening of the economy was delayed again in early Q3, though rising vaccination rates in Singapore have paved the way for a more concerted easing of domestic restrictions and reopening of borders, which should help consolidate the economic recovery in the latter part of this year. Firm external demand should also continue to provide support to the trade-related sectors. Against this backdrop, the Singapore economy is expected to grow by 6–7% this year.

- **Labour market conditions continued to improve in Q1, even as public health measures introduced from Q2 have dampened the recovery momentum.** Total employment expanded in Q1 2021, the first time since Q4 2019, but fell back into contractionary territory in Q2 based on preliminary data. Nevertheless, resident employment rose in the first half of the year, and most labour market indicators suggest that labour market slack declined in Q1. The tighter border restrictions and domestic heightened alert measures will check the labour market recovery in Q2 and Q3. However, renewed fiscal support measures and tight foreign labour supply should contain the transitory weakness.

- **Both CPI-All Items inflation and MAS Core Inflation rose in Q2, on account of the low base last year when prices fell.** Abstracting from base effects, sequential core inflation eased, reflecting the temporary dampening effects of the domestic heightened alert measures. In the quarters ahead, core inflation is expected to pick up gradually as higher commodity costs pass through to consumer prices and household spending increases with the easing of COVID-19 restrictions. On the other hand, headline inflation is anticipated to decline as base effects fade. MAS Core Inflation and CPI-All Items inflation are projected to come in within their respective forecast ranges of 0–1% and 1–2% this year.

- **Macroeconomic policy continued to provide support amidst the economic impact of disruptions caused by the resurgence of COVID-19 infections in recent months.** In April 2021, MAS reaffirmed the 0% p.a. rate of appreciation in the S$NEER policy band, against the backdrop of low core inflation and elevated downside risks from adverse pandemic developments. Fiscal policy was reactivated, while financial support measures were extended to households and businesses most affected by the heightened alert measures. In complement, the S$NEER policy band had provided flexibility for the exchange rate to accommodate the near-term increase in economic uncertainty, while the fiscal policy rendered targeted assistance to the vulnerable segments of the economy.

1 The International Economy

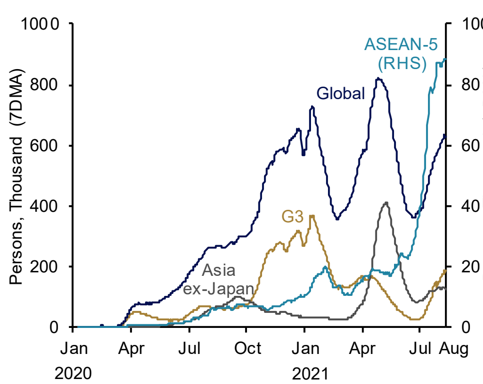
Strong but uneven global recovery amid disparities in vaccination rates and in levels of policy support

Global GDP grew by 1.5% q-o-q SA[1] in Q1 2021—taking world output back above its pre-pandemic level—after expanding by 1.7% in the preceding quarter. The pandemic's infection-lockdown cycle remained the key factor influencing economic momentum. Growth in some major advanced economies (AEs) accelerated as movement restrictions were eased, in turn underpinning activity in trade-driven Asian economies, while the pace of growth in China normalised as the economy emerged from its post-virus rebound.

The emergence of new virus variants drove a renewed global infection wave in Q2, with the ASEAN-5 countries more severely affected towards the end of the quarter **(Chart 1.1)**. However, the transmission channel from infections to economic activity has weakened in some countries with higher vaccination rates, mainly in Europe and North America. By contrast, vaccination rates in most Asian economies have lagged **(Chart 1.2)**, and many governments in the region have had to re-tighten movement restrictions **(Chart 1.3)**. This has in turn affected economic activity in regional economies, evident in the weaker performance of Asia ex-Japan PMIs in recent months **(Chart 1.4)**. However, the falls in activity were less precipitous than that observed amid early infection waves last year. This likely reflected the ability of governments, businesses and households to adapt to the circumstances of the pandemic, for example by adopting e-commerce and remote working solutions.

Chart 1.1 The latest wave of COVID-19 infections has been particularly severe in the ASEAN-5

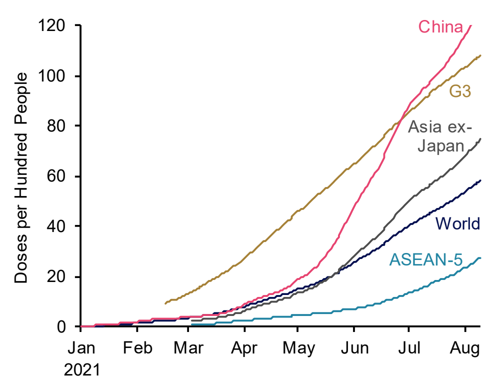
Seven-day moving average of new COVID-19 cases



Source: Our World in Data and EPG, MAS estimates

Chart 1.2 Vaccination rates are higher in the G3 and China

Vaccine doses administered per hundred people

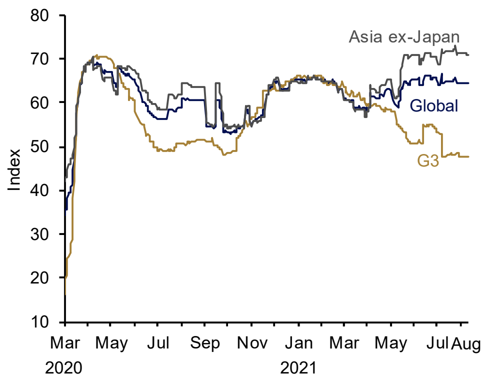


Source: Our World in Data

[1] Global and regional aggregated GDP weighted by shares in Singapore's non-oil domestic exports (NODX), unless otherwise specified.

Chart 1.3 Movement restrictions have tightened, especially in Asia ex-Japan

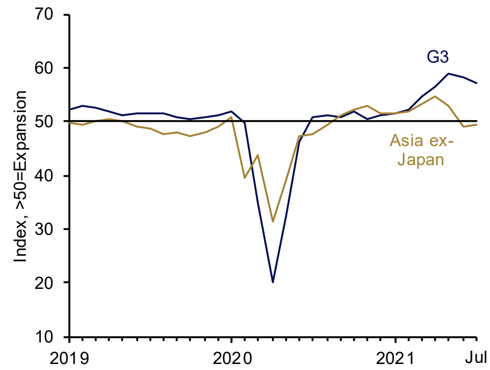
Indices of virus containment stringency[2]



Source: Oxford Blavatnik School of Government, Haver Analytics and EPG, MAS estimates

Chart 1.4 Asia ex-Japan PMIs have fallen, reflecting the impact of tighter restrictions

NODX-weighted composite PMIs



Source: IHS Markit and EPG, MAS estimates

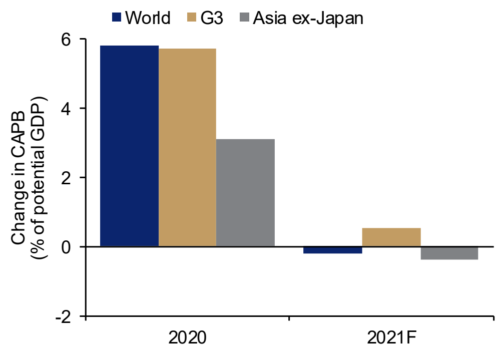
Note: Manufacturing PMIs used for ASEAN-5, South Korea and Taiwan, as composite PMIs are not available.

Differences in levels of macroeconomic policy support are also contributing to divergence in economic performance across countries. The G3 economies have generally implemented larger fiscal stimulus packages compared to Asia ex-Japan. Estimates based on IMF data indicate that the weighted average fiscal impulse (computed as the change in the cyclically adjusted primary balance) in the G3 was 5.7% of potential GDP in 2020, compared with 3.1% in Asia ex-Japan **(Chart 1.5)**. Major global central banks have maintained highly accommodative policy settings, expanding their balance sheets while keeping policy rates at or close to effective lower bounds **(Chart 1.6)**. In Asia ex-Japan, central banks have also maintained an expansionary stance, with policy rates kept at low levels.

[2] The stringency indices are calculated by weighting each economy's overall measure of outbreak containment stringency by its share in Singapore's NODX. Countries/economies included in the global index are Australia, China, Eurozone, Hong Kong SAR, India, Indonesia, Japan, Malaysia, the Philippines, South Korea, Taiwan, Thailand, US and Vietnam.

Chart 1.5 The G3 economies have implemented more fiscal support compared to Asia ex-Japan

Change in cyclically adjusted primary balance

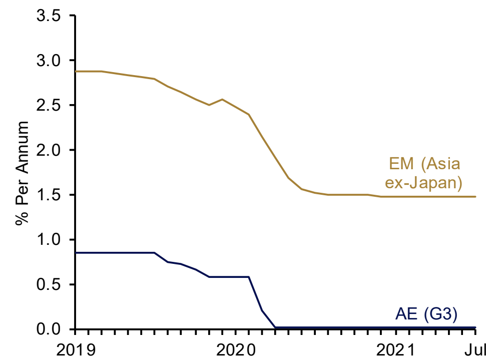


Source: IMF April 2021 Fiscal Monitor and EPG, MAS estimates

Note: Regional aggregates are weighted by nominal GDP.

Chart 1.6 Central banks have kept policy rates at low levels

NODX-weighted policy rates, percent per annum



Source: Haver Analytics, CEIC and EPG, MAS estimates

Global GDP growth is expected to pick up from Q3 2021. The G3 economies are on track to reach (or have already reached) vaccination rates that should significantly reduce the probability of further generalised outbreaks that could overwhelm healthcare systems, allowing a recovery in economic activity levels over the course of H2 2021, bolstered by the flow-through of extensive macroeconomic policy support. Activity in the Asia ex-Japan economies is expected to pick up as they emerge from their latest COVID-19 outbreaks and continue vaccine disbursement. Sustained strong growth in the AEs will also provide a tailwind for Asian economies that are more closely integrated into global supply chains. Consequently, the recovery should become more broad-based over the remainder of the year. All considered, global GDP is forecast to expand by 2.6% in H2 2021 compared to the preceding six months, after growing by 2.5% in H1, taking full-year growth to 6.2% **(Table 1.1)**.

By the end of 2022, the level of global real GDP is expected to be 1.3% lower than the level projected in January 2020 before the onset of the pandemic. Output in the G3 is projected to be 1.1% higher by end-2022 compared to the pre-pandemic forecast, mainly due to the significant quantum of policy support in these economies. In comparison, GDP in Asia ex-Japan at end-2022 is expected to be 2.4% below pre-pandemic projections.

Table 1.1 The global recovery is expected to pick up pace in H2 2021

	QOQ SA (%)			Annual (%)		
	2021 Q1	2021 Q2*	2021 Q3*	2020	2021*	2022*
G3	0.2	1.6	2.2	−5.1	5.1	4.2
Asia ex-Japan	2.1	−0.2	1.6	−2.2	6.8	4.9
ASEAN-5	1.5	−0.3	1.7	−4.3	4.5	5.8
Global	**1.5**	**0.3**	**1.7**	**−3.0**	**6.2**	**4.7**

Source: Haver Analytics and EPG, MAS estimates

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.

* EPG, MAS forecasts

Temporary factors have pushed up headline inflation, but the persistence of negative output gaps should keep underlying price pressures contained

Inflation has picked up discernibly this year. Global headline CPI rose by 3.0% y-o-y in June, after increasing by 3.2% in May, well above the 2011—19 average of 2.2%.[3] The rise in prices has been most pronounced in the G3, where headline inflation rose to 4.0% y-o-y in June, the highest rate since 2008 **(Chart 1.7)**. In Asia ex-Japan, headline inflation rose by 2.9% y-o-y in May and 2.3% y-o-y in June.

The rise in inflation has been driven to a significant degree by temporary factors. Some supply bottlenecks were caused by movement restrictions that have waxed and waned with waves of infections in various countries. These have led to price pressures in industries such as semiconductor production, and also pushed up freight costs. Moreover, prices of commodities and of some pandemic-sensitive items such as air fares were very low a year ago, leading to base effects as they normalise.

A persistent negative global output gap is expected to contain underlying price pressures while these temporary factors work themselves out. The global output gap is projected to close only in mid-2022.[4] The commodity price effect is already fading; the IMF's commodity price index rose 10.3% q-o-q in Q2 2021, slower than the 19.3% pace in the preceding quarter.[5] Market-derived measures of inflation expectations in the major advanced economies have risen from 2020 lows but remain broadly in line with pre-pandemic levels and central bank targets **(Chart 1.8)**. All considered, global inflation is projected to rise to 2.5% in 2021, from 0.6% in 2020, above the average of 2.2% over the period 2011—19. Inflation is then projected to ease to 2.3% in 2022.

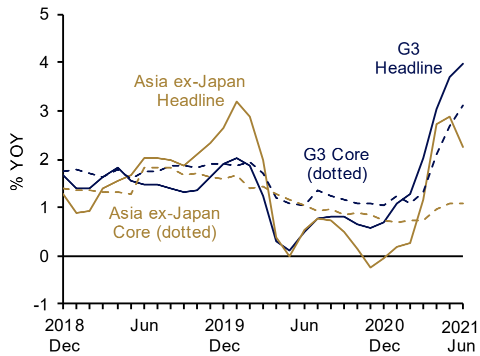
[3] The global CPI aggregate is weighted by country shares in Singapore's direct imports.

[4] Current projection from EPG's GPM-MAS global model.

[5] Computed as the difference in the quarterly averages.

Chart 1.7 Inflation has picked up, driven by both demand and supply factors

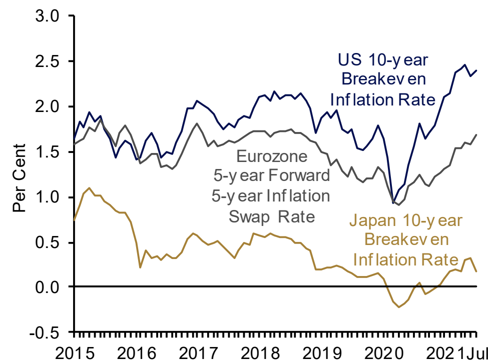
Headline and core CPI inflation



Source: Haver Analytics and EPG, MAS estimates

Chart 1.8 Market-based measures suggest inflation expectations remain contained

G3 breakeven inflation rates and forward swap rates



Source: Bloomberg

The pandemic remains a significant near-term risk, and adds to uncertainty over the medium-term outlook for growth and inflation

Risks to the economic outlook from the pandemic will continue to dominate until the virus is decisively contained. Asian economies are likely to remain at greater risk of pandemic-related economic disruption in the near term, given their slower pace of vaccination. High infection rates even in a few countries leave open the risk of the emergence of new virus variants. More infectious, lethal, or vaccine-resistant variants could lead to a need for renewed widespread mobility restrictions and significantly lower-than-expected global growth.

The evidence of recent infection waves suggests economic agents have learned to adapt their behaviour to pandemic conditions to some extent, weakening the impact on activity from a given level of mobility restrictions.[6] However, this is offset to some extent by the reduction in the fiscal and monetary policy space available to authorities to respond to another wave of generalised stringent lockdowns.

Even if such a scenario can be avoided and the virus can be progressively contained, the longer-term impact of the pandemic remains unclear, adding to uncertainty over the outlook for growth and inflation. The pandemic could have inflicted more severe damage on economies' supply potential than currently expected. For example, the reductions in labour force participation observed during the pandemic in many economies may not be reversed as quickly or completely as currently assumed. In this case, economies' spare capacity could be used up more quickly than anticipated, leading to the earlier and stronger emergence of inflationary pressures than forecast. More pronounced and persistent inflation could in turn compel authorities to withdraw policy accommodation sooner than expected.

The attendant tightening in global financial conditions could constrain the ability of policymakers in some emerging market economies (EMEs) to provide further monetary and fiscal support if needed. In extremis, policymakers in vulnerable EMEs could be forced to

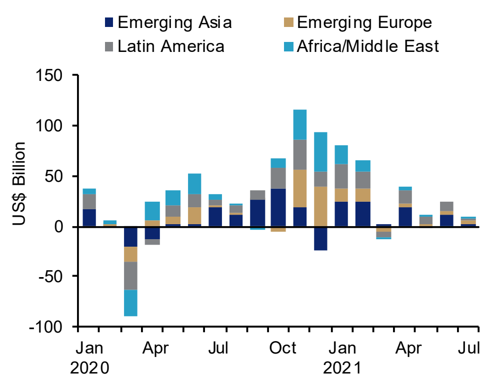
6 Macroeconomic Review, April 2021.

tighten policy even as their recoveries from the pandemic remain incomplete. Tighter financial conditions could also prompt a pullback of capital flows from EMEs **(Chart 1.9)**.

Higher levels of leverage among EM Asian corporates and governments, including in foreign currency **(Chart 1.10)**, increase the region's vulnerability to reduced availability of financing. At the same time, many Asian EMEs have built up their resilience against capital flow volatility by strengthening external liquidity buffers over the past decade, mitigating this risk to some extent.

Chart 1.9 EMEs have experienced modest net capital inflows in recent months

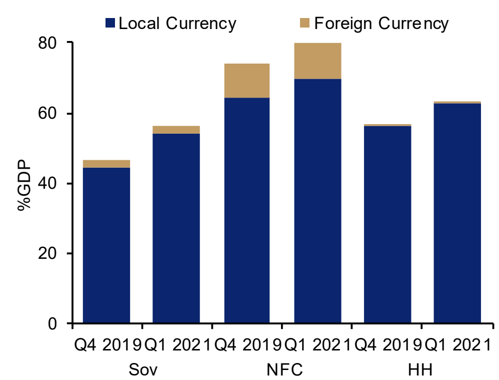
Net non-resident portfolio flows into EMEs



Source: Institute of International Finance (IIF) and EPG, MAS estimates

Chart 1.10 Debt levels in Asian economies are elevated

EM Asia debt by sector and currency



Source: IIF, Haver Analytics and EPG, MAS estimates

Note: Average of the following economies where timely data is available: China, India, Indonesia, Malaysia, Thailand; Sov = Sovereign, NFC = Non-financial corporates, HH = Households.

Rapid deployment of vaccines and substantial policy stimulus are supporting a rapid recovery in the G3

The recovery in the US has outpaced the other G3 economies, reflecting the higher degree of fiscal support and better containment of the virus in the US. In comparison, the Eurozone and Japan had to re-impose movement restrictions in Q1 2021, setting back their recoveries. The US economy grew by 1.5% q-o-q SA in Q1 2021, compared to a 0.3% output contraction in the Eurozone, and a 1.0% decline in Japan. Consequently, economic output in the US had recovered to just 0.8% below its pre-pandemic (Q4 2019) level in Q1 2021, compared to 4.9% below for the Eurozone, and 2.0% below for Japan.

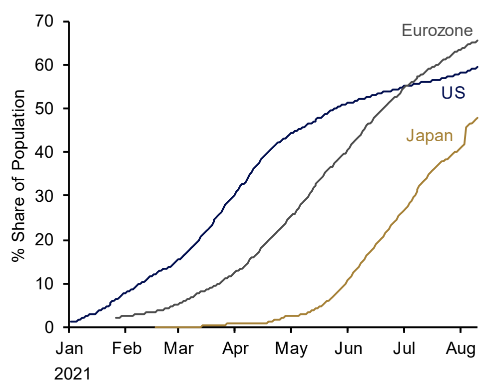
Growth momentum in the G3 economies is estimated to have picked up to 1.6% q-o-q SA in Q2 2021, compared to 0.2% in Q1. Advance estimates indicate that the US economy grew by 1.6% q-o-q SA in Q2 2021, while the Eurozone expanded by 2.0% q-o-q SA. Rapid vaccine deployment in the US and Europe **(Chart 1.11)** has allowed for more complete economic re-opening. This has in turn allowed policy stimulus to flow through to final demand, including a robust pick-up in private consumption.

Composite PMIs suggest that the Eurozone economy gained further momentum going into Q3, with the index climbing to 60.2 in July, the highest since 2000. Meanwhile, the pace of growth in the US has started to ease, although remaining robust. The US composite index declined to 59.9 in July from 63.7 in June. Japan's composite PMI fell further to 48.8 in July, reflecting the re-imposition of some movement restrictions amid a further rise in infections **(Chart 1.12)**.

In aggregate, output in the G3 economies is projected to expand at an above-trend rate of 3.6% in H2 2021 after growing by 1.4% in H1, taking full year growth to 5.1%. The pace of expansion in output is then projected to ease gradually towards trend next year. GDP growth in the G3 in 2022 is projected at 4.2%.

Chart 1.11 Vaccine deployment has proceeded rapidly in the US and Eurozone

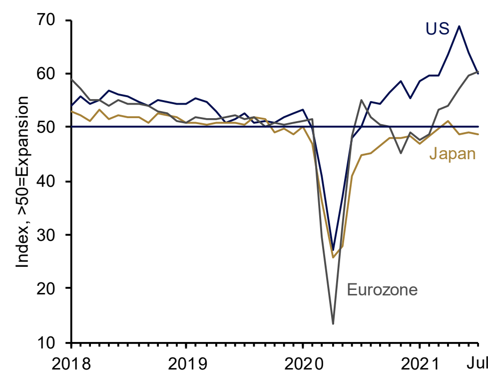
Number of people who received at least one vaccine dose



Source: Our World in Data

Chart 1.12 Growth momentum in the Eurozone and Japan are expected to pick-up in H2 2021

Composite PMIs in the G3



Source: Haver Analytics

A resurgence in COVID-19 infections set back Asia ex-Japan's economic recovery in Q2 2021

GDP in Asia ex-Japan expanded by 2.1% q-o-q SA in Q1 2021, supported by firm external demand as well as a decline in the number of new COVID-19 infections across the region, which allowed public health measures to be eased to some degree. However, output in the region is expected to have contracted slightly in Q2 2021, as several countries experienced their worst outbreaks to date and authorities were consequently compelled to re-tighten movement restrictions. Growth in China—where the recovery is more advanced and COVID-19 outbreaks have remained localised and well-contained—remained firm at 1.3% q-o-q SA in Q2, compared with a 0.7% decline for the rest of Asia ex-Japan.

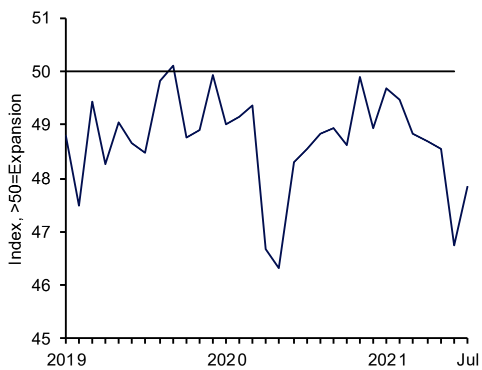
Nonetheless, the adverse economic impact of the latest COVID-19 wave on Asia ex-Japan has thus far been smaller compared to Q2 2020, when stringent, large-scale movement restrictions were imposed and regional economic output declined by 3.6% q-o-q SA. Authorities have implemented more targeted containment measures, while companies and households have also adapted by shifting towards telecommuting and greater use of online platforms.

The economic recovery in Asia ex-Japan is expected to regain momentum from Q3 2021, as public health measures are relaxed to a greater degree on the back of wider vaccine disbursement. The strength of the projected growth rebound in the AEs should impart tailwinds to Asian merchandise exports, particularly for countries closely integrated into global supply chains. The PMI sub-indices for new export orders in South Korea and Taiwan, bellwethers for global trade, remained above the '50' expansion threshold in July. Overall, Asia ex-Japan PMI data suggests that inventories remain lean—the sub-index for stocks of finished goods has fallen further into contractionary territory over the course of 2021 **(Chart 1.13)**. The ongoing global recovery will also bolster demand for commodities, which will benefit natural resource-rich countries.

Nevertheless, the pace of recovery will be uneven across the region, in part reflecting differences in the course of the pandemic and speed of vaccination rollout. Several countries in the region were still facing rising or elevated infection rates as at early August. Consequently, economic activity in early Q3 will continue to be weighed down by stringent mobility restrictions. The slow pace of vaccinations in some countries **(Chart 1.14)** also renders them vulnerable to renewed virus outbreaks. Restrictions on international travel will hinder growth in ASEAN-5 countries which are more reliant on tourism.

Chart 1.13 PMI data suggest inventories in Asia ex-Japan remain lean

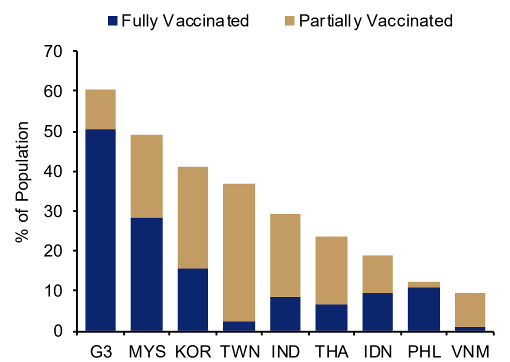
Asia ex-Japan PMI sub-index for stocks of finished goods



Source: IHS Markit

Chart 1.14 Vaccinations in some Asia ex-Japan countries have lagged

Vaccinated persons as a share of population



Source: Our World in Data, CEIC and EPG, MAS estimates

Note: Data as at 9 August.

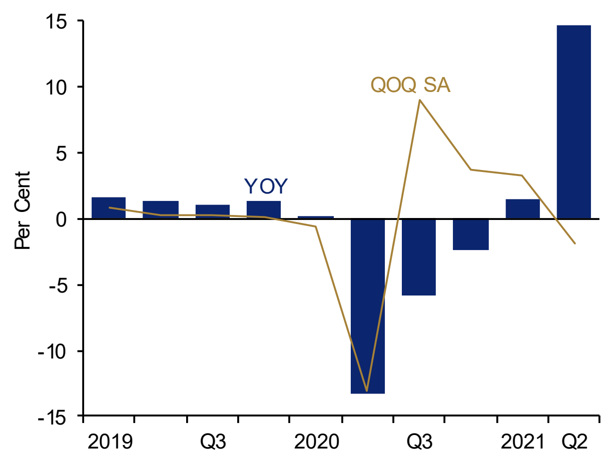
2 The Singapore Economy

The Singapore economy experienced a setback to its recovery in Q2 2021

Singapore's GDP contracted by 1.8% q-o-q SA in Q2 2021, reversing the 3.3% expansion in the preceding quarter **(Chart 2.1)**. This brought the output level back down to around 1% short of its pre-COVID level in Q4 2019, after having recouped in the first quarter all the output lost last year. The sequential decline in GDP stemmed largely from the domestic-oriented sectors, as a consequence of the surge in COVID-19 cases in the community. There was also a pullback in the trade-related cluster, following the strong growth in Q1. On a year-ago basis, GDP growth recorded a robust 14.7% in Q2 2021, reflecting the low base effect as the economy hit a trough in the same period last year.

Chart 2.1 GDP contracted on a sequential basis in Q2 2021, reversing the expansion in Q1

Singapore's real GDP Growth



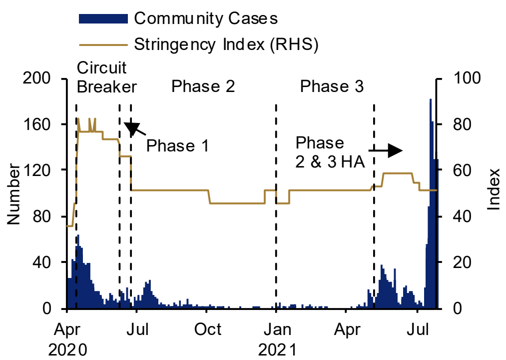
Source: DOS

Domestic-oriented activities were held back by new clusters of infection

Towards the end of April and early May, new clusters of COVID-19 infections were detected in the community, which resulted in a regression from Phase 3 re-opening of the economy. The move to Phase 2 (Heightened Alert) in mid-May included a ban on dining-in at food establishments, gatherings restricted to two persons, and suspension of personalised mask-off services. These measures were much less restrictive than those imposed during the circuit breaker last year, as shown by the stringency index which saw a mild uptick from 50 to 60 in May 2021, compared to a doubling in the index to 80 in April 2020 **(Chart 2.2)**. Nevertheless, the impact on mobility—as shown by data from the Google location notification services on footfalls at retail and recreational venues—appeared to be relatively larger this time than that implied by the stringency index. This suggests that there was probably voluntary social distancing as some additional degree of caution set in among the public amid the increase in community infections **(Chart 2.3)**. In the second half of June, some of the restrictions were eased as the economy transited carefully into Phase 3 (Heightened Alert).

Chart 2.2 Phase Two (HA) measures were less restrictive than those seen in the Circuit Breaker

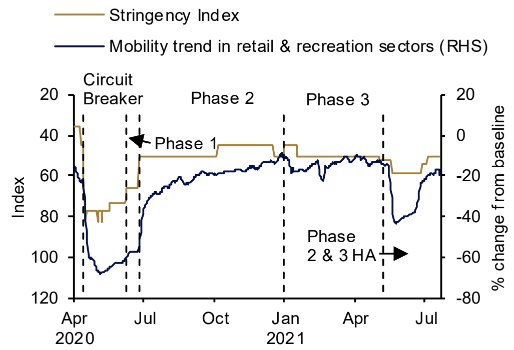
Stringency Index & Daily New Community Cases



Source: Our World in Data and University of Oxford Blavatnik School of Government

Chart 2.3 Recent decline in mobility suggested some voluntary social distancing

Stringency Index (Inversed) & Google Mobility Trends



Source: Oxford Blavatnik School of Government 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.

The overall impact of the heightened alert measures on the economy in Q2 2021 was much less severe than that of the circuit breaker restrictions in Q2 last year. Most businesses, including retail outlets, have been able to continue their operations this time round. However, the re-imposition of tightening measures and voluntary safe-distancing represents another demand setback to sectors that have already been severely hit and reeling from substantial output losses since the onset of the pandemic.

Within the consumer-facing sector, the food & beverage industry contracted by 8.0% q-o-q SA in Q2 2021, affected by the prohibition on dining-in. In terms of sales, almost all F&B segments recorded sequential declines. Meanwhile, the retail industry contracted by 4.4% q-o-q SA in Q2, with footfall in retail malls drastically reduced as dining-in at F&B establishments was disallowed or limited. Outturns varied across the retail categories. While sales volumes of discretionary goods for recreational purposes, wearing apparel & footwear, watches & jewellery, and those from department stores declined sequentially by 5–11% in Q2, supermarkets & hyper markets as well as retailers of computer & telecommunication reported higher sales, of 9.4% and 11.7% respectively.

Supply-side factors hampered construction activity

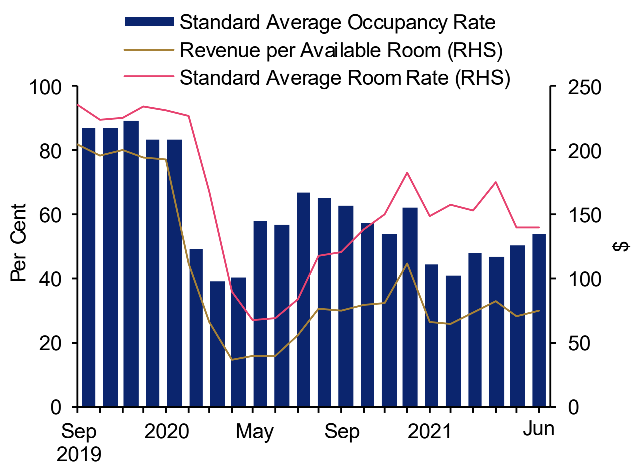
The construction sector underperformed in Q2 2021, shrinking by 7.6% q-o-q SA following three quarters of expansion. Unlike during the circuit breaker in Q2 last year when construction activity was halted, output this time was dampened by disruptions from the supply side, following the suspension of the entry of foreign workers from India since late April, and subsequently other South Asian countries since early May. Further, construction companies that are heavily reliant on building materials from Malaysia were hit by its strict nationwide Movement Control Order (MCO). Certified payments fell across both the public and private segments in Q2 relative to Q1. The pullback in private certified payments (−4.6%) was on account of weakness in commercial and industrial building works, while the fall in public certified payments (−1.4%) was attributed to industrial as well as institutional & other building works.

The travel-related sector remained sluggish

The incremental impact of the recent measures on the travel-related industries was not large as borders have been largely closed to visitors since early last year. Nevertheless, with more stringent border restrictions in place, monthly visitor arrivals declined to an average of 16,650 in Q2, from 22,900 in Q1. The fall in arrivals from South Asia and ASEAN more than offset increased arrivals from China. The negative impact on demand for accommodation was exacerbated by the domestic heightened alert measures that dampened bookings for staycations **(Chart 2.4)**. Nevertheless, government bookings to house persons under quarantine and stay-home notices provided some support and the accommodation sector expanded by 2.4% q-o-q SA, compared to the double-digit decline in Q1.

Chart 2.4 Heightened alert measures have dampened demand for hotel accommodation

Hotel Statistics

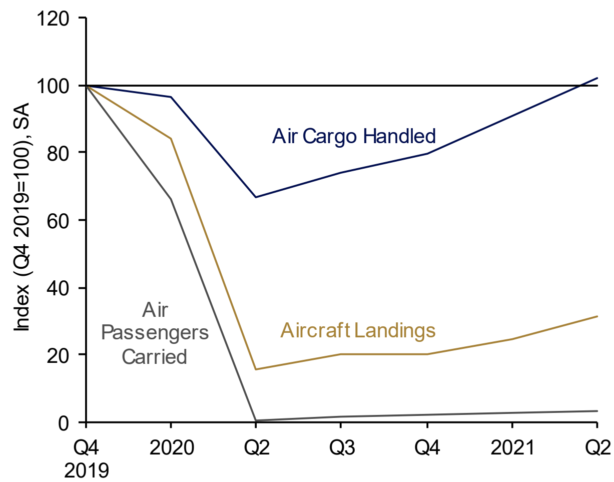


Source: STB

In the aviation sector, the number of aircraft landings and air passengers carried remained extremely low, at 31% and 3.6% of pre-COVID levels in Q2 2021, albeit with some improvement from 25% and 2.6% in Q1 **(Chart 2.5)**. Singapore Airlines has gradually reintroduced flight services to more destinations, connecting to 49 cities as at end-June, up from 40 in February this year, thus benefiting from transit passenger volume. Meanwhile, total air cargo handled at Changi rose above its pre-COVID level in Q2 2021, from about 10% below in Q1, thus providing the bulk of the boost to air transport VA.

Chart 2.5 The number of aircraft landings and air passengers carried remained low

Air transport indicators



Source: CAAS and EPG, MAS estimates

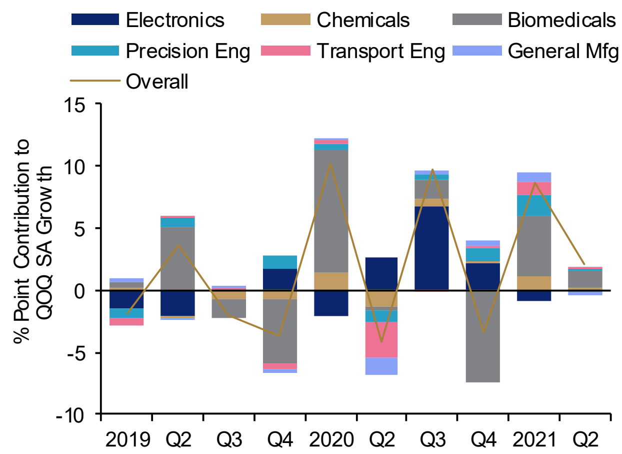
Trade-related activity saw some pullback following a strong Q1

Singapore's Index of Industrial Production (IIP) grew by 2.0% q-o-q SA in Q2 2021, moderating from the 8.6% increase in Q1 2021 **(Chart 2.6)**.[7] The slowdown was broad-based across all segments. Output in the precision engineering sector eased to 1.4% in Q2 2021, from 10.9% in the previous quarter, amid some pullback in domestic semiconductor output (part of the electronics cluster). Nevertheless, the average monthly level of semiconductor production since Q3 2020 was about 30% higher than that in 2019, supported by strong global chip demand driven in part by the pandemic-accelerated digitalisation of activity. Growth in the transport engineering cluster moderated, with output in the marine & offshore engineering industry falling due to the manpower crunch. Output in the chemicals cluster also eased, largely due to weakness in the production of speciality and other chemicals. Meanwhile, the biomedical cluster expanded by 9.3% in Q2, on account of higher production of active pharmaceutical ingredients and biological products as well as medical devices. This was however a significant growth slowdown from the 43% expansion in Q1.

[7] Sequential SA growth rates of manufacturing VA may not be aligned with IIP as the underlying data are of different frequencies and adopt different seasonal adjustment methodologies, but their y-o-y growth rates are similar.

Chart 2.6 Industrial production grew at a slower rate in Q2

Index of Industrial Production



Source: EDB

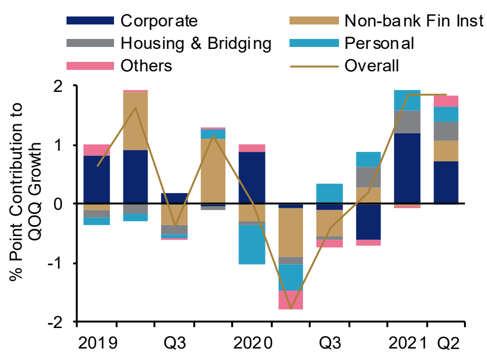
Note: Due to chain-linking, the additive property of sub-aggregate series may not hold.

Modern services lost some momentum

The finance & insurance sector expanded by 1.7% q-o-q SA in Q2, moderating from the 2.3% growth in Q1 2021. The slowdown was led by the contraction of the banks segment following the stellar performance in the previous quarter. Although DBU non-banks loans continued to increase at a steady pace, ACU non-bank loans declined after two consecutive quarters of expansion, dragged down by lending to East Asia (**Charts 2.7 and 2.8**). Meanwhile, the sentiment-sensitive segments turned in a mixed performance. While forex and security dealing activities contracted amid decreases in FX and SGX derivatives turnover, the fund management segment was buttressed by higher fees and commissions as major equity indices remained resilient in recent months.

Chart 2.7 DBU non-bank loans continued to grow at a steady pace…

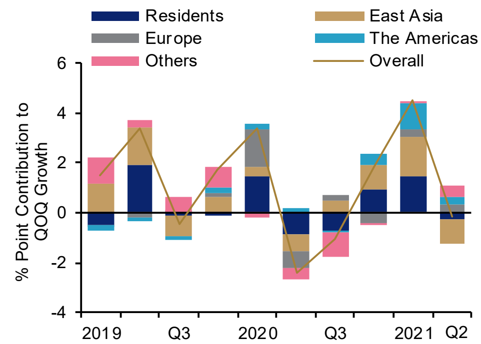
DBU Non-bank Loans by Loan Type



Source: MAS

Chart 2.8 … while ACU non-bank loans were dragged down by a decline in lending to East Asia

ACU Non-bank Loans by Region



Source: MAS

In comparison, the insurance segment continued to benefit from strong demand for life insurance products, although the general insurance subsegment shrank as Phase 2 (Heightened Alert) crimped business activity. Similarly, auxiliary activities in the financial sector (comprising payment services players) expanded as the structural shift towards e-payments continued to provide some underlying support.

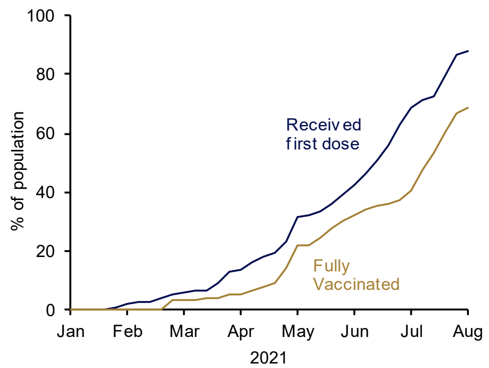
In the ICT sector, the IT & information services segment contracted further, as activity in the telecommunications segment remained weighed down by weak demand for roaming services amid still-sluggish tourism flows. Similarly, the professional services sector shrank, due to contractions in the legal and architectural & engineering subsegments. While the professional services firms have not been affected by the recent heightened alert measures with most of their workforce already working from home, anecdotal feedback from firms indicated that the prolonged travel restrictions have impeded expansion plans.

The accelerated pace of vaccinations will reduce uncertainty for businesses and households, and facilitate the economy’s gradual transition to normalcy

Singapore is on the verge of entering a new phase in its battle against COVID-19, as the country ramps up its vaccination drive in preparation for a future where COVID will be endemic in the country. The return to Phase 2 (Heightened Alert) from 22 Jul was aimed at stemming the recent spike in community cases while the country pushed ahead with its vaccination drive. Although vaccinations do not fully eliminate the risk of infection, those who are inoculated face less serious health consequences, allowing for the gradual resumption of all economic activity including the reopening of borders. With the pace of vaccination picking up significantly since end June, 70% of Singapore’s population have been fully vaccinated, and 79% partially vaccinated as at 8 August **(Chart 2.9)**. Currently, Singapore has the highest vaccination rate in Asia **(Chart 2.10)**.

Chart 2.9 70% of the population have been fully vaccinated by National Day

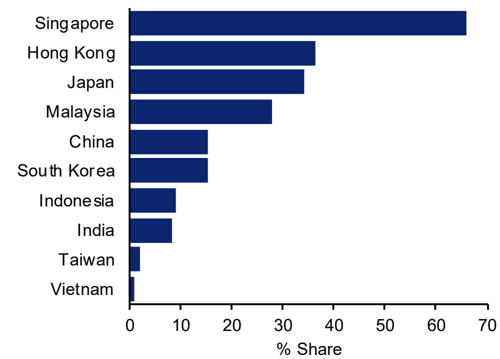
Share of population vaccinated in Singapore



Source: Our World in Data

Chart 2.10 Singapore has the highest vaccination rate in Asia

Share of the population fully vaccinated against COVID-19



Source: Our World in Data

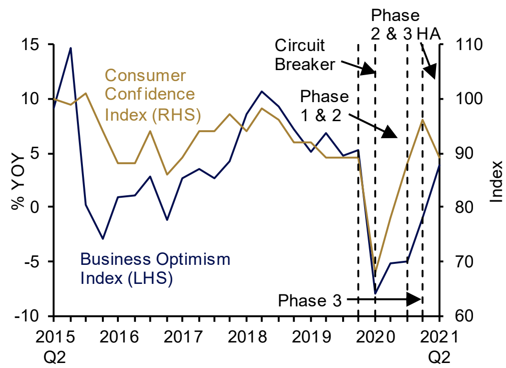
Note: Data as at 9 August 2021, except for China (10 June 2021)

On 6 August, the government announced the easing of Phase 2 (Heightened Alert) measures in two steps. From 10 August, dining-in at food establishments and personalised mask-off services were allowed to resume, while the size of social gatherings and events have also increased, with fully vaccinated individuals permitted to participate in higher-risk activities and larger events. If the situation remains under control, event sizes and capacity limits for malls and attractions will increase further, and work-from-home requirements will also be eased from 19 August. These two steps mark the first of Singapore's four-stage transition to a COVID-19 resilient nation.

With this roadmap in place, the economic recovery—temporarily disrupted in Q2 and into part of Q3—should get back on track thereafter, alongside a firming of global demand. While there is still the risk of possible mutations of the virus which would put the efficacy of vaccines to the test, the re-imposition of circuit breaker-equivalent measures that would severely disrupt business and consumer activity is not expected to occur under the current trajectory of infection-control measures. The latest reading of the Business Optimism Index show that sentiments have continued to trend up post circuit breaker last year, while Consumer Confidence dipped only slightly following the re-imposition of mobility restrictions in April–May 2021 **(Chart 2.11)**. In addition, Singapore's economic uncertainty index has continued to ease in May this year despite the rise in community cases **(Chart 2.12)**.

Chart 2.11 Sentiments have trended up post circuit breaker last year

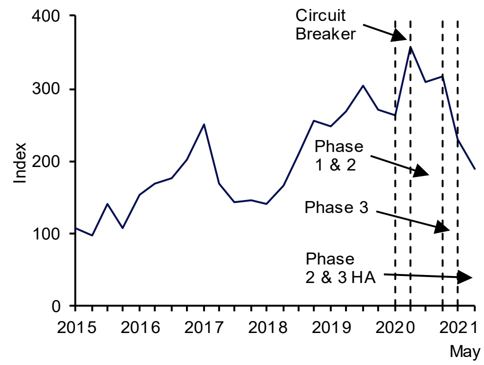
Business Optimism and Consumer Sentiment



Source: SCCB, The Conference Board

Chart 2.12 Singapore's economic uncertainty index continued to ease

Economic Policy Uncertainty Index



Source: Policyuncertainty.com

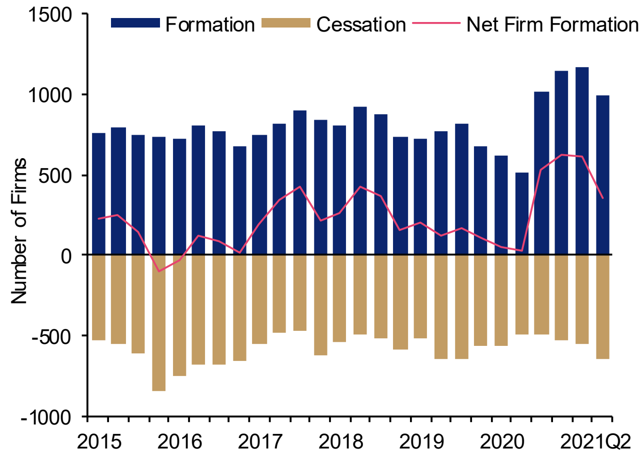
Note: Data from policyuncertainty.com. The Singapore EPU Index is a trade-weighted average of national Economic Policy Uncertainty (EPU) indices for 21 countries. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy (E), policy (P) and uncertainty (U) in each month.

Consumer-facing F&B and retail sectors should see some improvement in the latter part of the year but they continue to face structural challenges

In the near term, the recovery of the F&B and retail sectors will be held back by the re-introduction of the Phase 2 (Heightened Alert) measures from late July to mid-August. Barring further widespread outbreaks in the community, these sectors should see some reprieve in late Q3 and Q4, alongside a more extensive opening up of the economy. Activity should be bolstered by a pickup in consumer confidence alongside a higher vaccinated population, improved footfall from more people returning to the workplace, and larger groups of diners allowed to gather at eateries. However, the sectors continue to face structural challenges. Demand in the F&B industry has also not kept pace with incoming supply, resulting in stiff competition and compressed profits margins among F&B operators. According to ACRA, average quarterly net firm formation in F&B rose by more than threefold to 529 firms over the past four quarters compared to 2019 **(Chart 2.13)**. The retail and F&B sectors also continue to face increased competition from overseas e-commerce players as well as rising manpower and rental costs.

Chart 2.13 Average quarterly net firm formation in the F&B sector has risen sharply since the start of the pandemic

Net firm formation in the F&B sector



Source: ACRA

While operating capacities are expected to stay well below pre-pandemic levels, the travel-related sector should see some incremental improvements

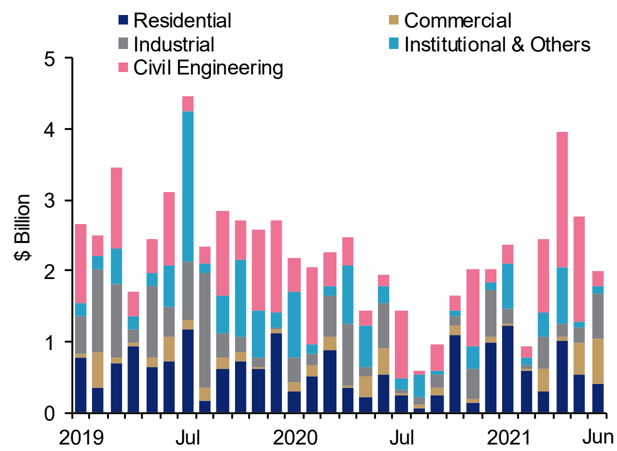
The recovery profile of the aviation industry will vary across countries, depending on border restrictions, vaccination rates and the degree of risk aversion of potential travellers. With vaccination rates in most developed countries expected to exceed 50% of the population by Q3 2021, the resumption of international travel in many of Singapore's key markets such as the US and EU offers hope for some recovery in the domestic tourism-related sector towards the end of this year. In particular, the expected relaxation of Singapore's quarantine periods for vaccinated travellers should induce some inbound tourism. Nevertheless, arrivals from ASEAN, which accounted for about one-third of visitor arrivals in 2019, may see a slower recovery given the low vaccination rates and recurring infections in these countries. Overall, the air transport industry is still expected to operate at less than half of its pre-pandemic level by end-2021.

The recovery in the construction sector will be hampered by manpower constraints in the near term

The recovery in the construction sector will hinge largely on the speed at which the manpower crunch can be resolved. This would in turn depend on when the ban on the entry of migrant workers from South Asian countries can be lifted, although some short-term mitigating measures such as the temporary easing of skills-certification rules for workers from China have been put in place. The government has also announced a pilot programme to bring in migrant workers from India on a small scale from July in a risk-based approach towards resuming labour inflows. Meanwhile, safe management measures continue to hinder productivity and impede recovery in the sector. Consequently, despite a strong pipeline of projects, the construction sector is expected to see a slower recovery in 2021 than earlier anticipated and remain substantially below pre-COVID levels by year-end **(Chart 2.14)**.

Chart 2.14 The rising number of contracts awarded should raise construction output

Contracts Awarded



Source: BCA

Singapore's electronics industry will continue to be supported by the robust upswing in the global tech cycle

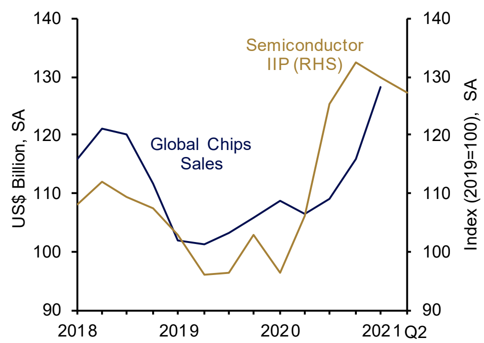
The outlook for the manufacturing sector is sanguine, underpinned by the electronics cluster. Accelerating global demand should boost production in Singapore's electronics cluster, given the high correlation between global chip sales and Singapore's semiconductor IIP **(Chart 2.15)**. Semiconductors in particular have seen growth driven by higher new orders from 5G smartphone manufacturers, the automotive market, cloud services, and data centres. A decomposition of global chip sales[8] suggests that the increase since Q3 2020 has been mainly underpinned by the expansion of final investment demand **(Chart 2.16)**. According to EDB's latest Business Expectations Index for the manufacturing sector, firms in the electronics cluster were the most optimistic with a net weighted balance of 40% of them expecting the business outlook to be positive between July and December 2021. The electronics sector PMI showed that inventory had built up at a slower rate in recent months, alongside rising input prices, suggesting that firms could be facing some supply-side constraints **(Chart 2.17)**.

Growth prospects in the medium term remains optimistic as Singapore continues to attract quality FDI inflows in the manufacturing sector. For instance, GlobalFoundries recently announced a US$4 billion investment plan to expand its Singapore wafer plant, expected to be fully operational in 2024. Vaccine maker BioNTech will be setting up an mRNA manufacturing facility in Singapore that is expected to be operational in 2023, and designating the country as its regional headquarters for Southeast Asia.

[8] Global chip sales data was first decomposed into trend and cyclical components using the Frequency Domain filter. The cyclical component was then regressed on the corresponding components in electronics retail sales (China and US), gross fixed capital formation (G3 and Asia), South Korea's PPI for semiconductors, materials inventory of electronics manufacturers in the US and integrated circuit imports by China. These regressors capture consumer demand, investment demand, chip price, stockpiling in the US and stockpiling in China.

Chart 2.15 Electronics demand was firm in recent quarters…

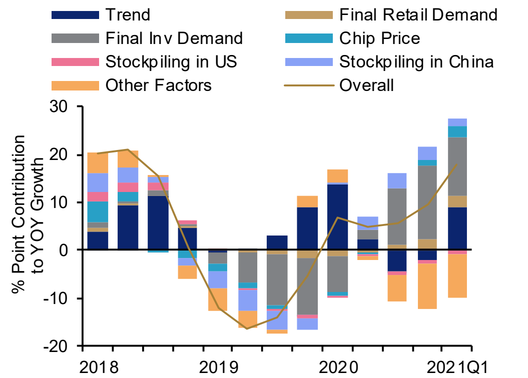
Global Chip Sales and Singapore's Semiconductor IIP



Source: World Semiconductor Trade Statistics, Haver Analytics, EDB and EPG, MAS estimates

Chart 2.16 …underpinned by strong investment demand for chips

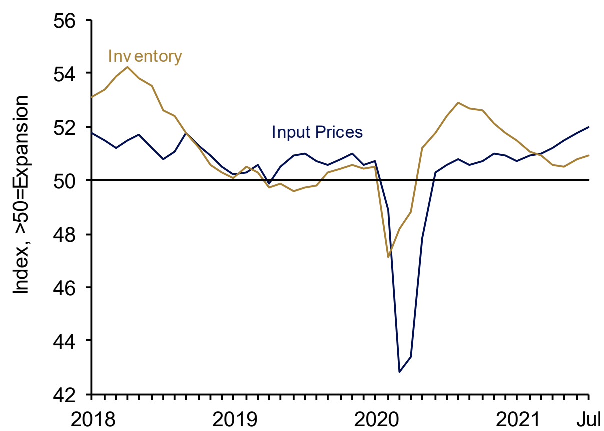
Decomposition of Global Chip Sales



Source: World Semiconductor Trade Statistics and EPG, MAS estimates

Chart 2.17 Electronics inventory accumulated at a slower pace, alongside rising input prices

Electronics PMI: Inventory and Input Prices



Source: Singapore Institute of Purchasing and Materials Management

Modern services are expected to deliver firm growth in the near to medium term

The financial & insurance sector will continue to be affected by short-term cyclical developments and medium-term structural factors, both of which should be on balance positive for growth. In the near term, notwithstanding occasional virus outbreaks, the gradual recovery of the Singapore and regional economies should spur demand for credit and other banking services domestically. Likewise, the resumption of business activity is expected to drive demand for general insurance products. In comparison, activity in the fund management segment could slow after experiencing strong growth in the earlier quarters. While easy monetary conditions around the world provided a conducive backdrop for strong trading activity, the prospect of policy tightening in the near future could induce more caution.

In the coming years, the structural shift towards e-payments is set to continue in Singapore and the region, therefore providing support to the payments processing and credit card services players. Meanwhile, the growing wealth of the region and advent of robo-advisory will buttress the underlying prospects of the fund management segment.

Elsewhere within modern services, IT & information services and professional services are poised to recover alongside the gradual resumption of business activity in Singapore and the region. Structural trends such as digitalisation of business processes, the increasing use of machine learning and artificial intelligence, and the shift towards e-platforms for the provision of both consumer and business services, will provide a fillip to IT services and related business consultancy services in the years ahead.

The Singapore economy is set to resume its recovery path from late Q3 2021

All in, Singapore's GDP growth is projected to come in at 6–7%% in 2021. The forecast took into account the relatively strong outturn in the first half of this year, as well as the phased re-opening of the economy and continued pickup in external demand expected in the coming months. This outturn would hold in the absence of new variants of COVID-19 which could jeopardise the normalisation of economic activity and the transition to an endemic virus environment.

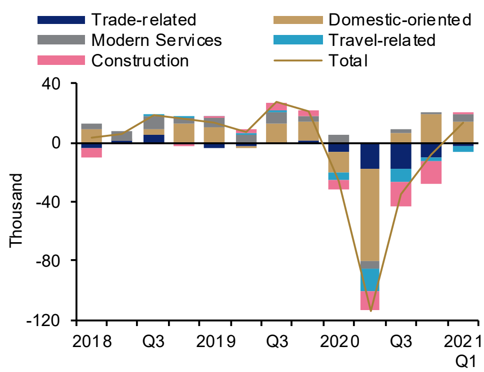
3 Labour Market and Inflation

The labour market continued to recover at a steady pace in Q1 2021

Total employment expanded by 14,000 q-o-q in Q1 this year, after four consecutive quarters of contraction **(Chart 3.1)**. Notably, headcount in the construction sector ceased declining in Q1 amid the ramp-up of building activities as well as looser border restrictions on the inflow of non-resident workers. Similarly, the relaxation of entry restrictions for non-resident workers saw employment in the trade-related sector[9] register a much slower pace of decline relative to the previous quarter. Employment outturns also improved in modern services, driven by broad-based strong hiring. However, the travel-related sector continued to reduce their headcount in Q1. Employment in the domestic-oriented sector slowed somewhat, partly reflecting the seasonal moderation in hiring in F&B services, following the festive period in Q4.

Chart 3.1 Employment improved in most sectors

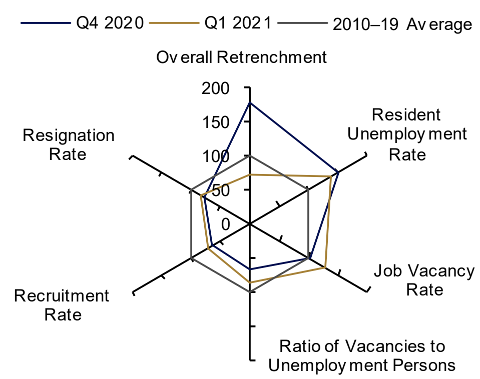
Q-o-q employment change



Source: MOM and EPG, MAS estimates

Chart 3.2 Most indicators suggest that labour market slack declined significantly in Q1 2021

Labour market indicators



Source: MOM and EPG, MAS estimates

Note: All variables are indexed such that the 2010–19 historical average for each indicator takes a value of 100.

The expansion in overall employment in Q1 was driven entirely by resident workers and brought resident employment to 1.6% above its pre-COVID level. However, gains in resident employment moderated to 23,700 q-o-q in Q1 2021 from 34,500 in Q4 2020, as matching frictions could have intensified alongside a decline in the number of unemployed residents. Meanwhile, the contraction in non-resident employment decelerated significantly to 9,700 in Q1, from 42,300 in the previous quarter, reflecting looser border restrictions in Q1 2021 compared to the previous quarter.

9 The "trade-related" sector consists of manufacturing, wholesale trade and water and other transport industries. The "modern services" sector comprises information & communication (ICT), financial & insurance and professional services. The "travel-related" sector is made up of air transport, accommodation as well as arts, entertainment & recreation industries. The "domestic-oriented" sector encompasses land transport, retail trade, food and beverage (F&B), real estate, administrative & support services, community, social & personal services (excluding arts, entertainment & recreation) and utilities & others.

A broad swathe of labour market indicators improved discernibly in Q1 compared to the preceding quarter, suggesting that labour market slack continued to diminish alongside the wider economic recovery **(Chart 3.2)**. Retrenchments fell to a level below the historical norm, while the job vacancy rate rose to 3.4%, above the 10-year average of 2.6%. The ratio of job vacancies-to-unemployed persons also improved to 0.96 in Q1 2021, up from 0.75 in the previous quarter, and close to the historical average of about one. However, some degree of labour market slack remains. For instance, the resident unemployment rate of 4.0% in March remained above the historical average. Recruitment and resignation rates also stayed below their norm, while the number of workers on short work-week or temporary layoff continued to be well above that in non-recessionary periods.

Reflecting the lingering slack in the labour market, resident wage growth was weak in Q1 2021, at 0.2% y-o-y in Q1 2021, slowing from the 1.6% outturn in Q4 2020. This was likely due to lags in the response of wages to business cycle movements. Another factor contributing to weak measured y-o-y wage growth in Q1 2021 was the rise in employment share of lower-wage sectors (primarily consumer-facing services) in comparison to the declines in the first half of 2020.[10]

Stricter border restrictions and Phase 2 Heightened Alert measures have slowed the momentum of the labour market recovery

MOM's preliminary estimates showed that overall employment contracted by 19,300 in Q2, as non-resident employment fell at a faster pace, while resident employment gains eased. Progressively tighter border controls implemented in Q2 in response to rising global COVID-19 caseloads and more virulent strains of the virus led to a sharper decline in non-resident employment across most sectors. Meanwhile, the increase in resident employment moderated as more stringent domestic public health restrictions dampened labour demand, especially in the consumer-facing sectors such as F&B services and retail trade.

The heightened alert measures, including the return to P2HA in July, are expected to have relatively modest effects on the path of the resident labour market recovery. The rapid reactivation of targeted policy support, in particular the enhanced Jobs Support Scheme and rental waivers/rebates, coupled with difficulties in hiring foreign workers, should mitigate the blow to resident employment. As domestic vaccination efforts progress, firms are more likely to view the disruption from public health measures as transitory and seek to manage short-term liquidity constraints rather than shed workers permanently. Even as the pace of resident employment expansion eased, the resident unemployment rate continued to edge down from 3.9% in April to 3.7% in June.

Inflation picked up in Q2 2021, reflecting the low base a year ago

MAS Core Inflation rose to 0.7% y-o-y in Q2, from 0.2% in Q1, on the back of the cyclical low in prices in Q2 2020 **(Chart 3.3)**. Both domestic- and external- driven components of the core CPI basket contributed to the strengthening in core prices. Overall services costs rose by 1.3% y-o-y in Q2, mainly on account of higher prices in cyclically-sensitive components compared to the same period a year ago. On the external front, the rebound in global oil prices contributed to a smaller decline in electricity & gas costs in Q2. Imputed components, mostly

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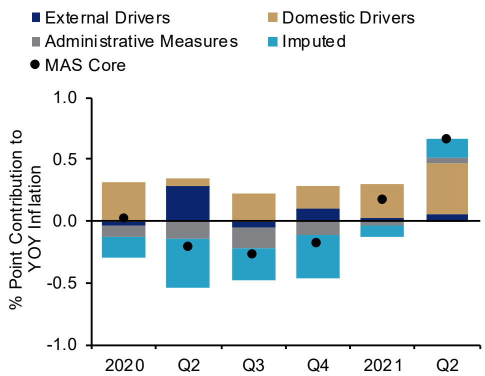
10 Lower-wage consumer-facing sectors saw disproportionate employment declines in Q2 2020 when resident employment fell steeply.

reflecting travel-related items, also drove part of the increase in core inflation from the preceding quarter.[11]

CPI-All Items inflation rose more sharply to 2.3% y-o-y in Q2, from 0.8% in Q1, on account of stronger private transport inflation (part of domestic drivers) **(Chart 3.4)**. Local petrol prices rose at a faster pace in Q2, averaging 19.5% higher than its year-ago level. At the same time, car prices registered steeper price increases, exceeding its pre-COVID (2019) level by 14% in Q2 as demand was firm and COE quotas were further reduced.

Chart 3.3 Domestic factors drove most of the increase in core inflation in Q2

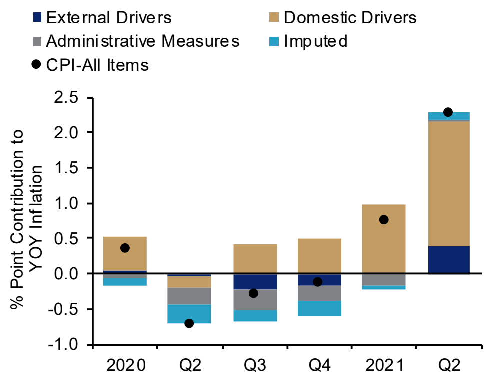
% Point Contribution to MAS Core Inflation



Source: DOS and EPG, MAS estimates

Chart 3.4 The hike in headline inflation was largely due to higher private transport inflation

% Point Contribution to CPI-All Items Inflation



Source: DOS and EPG, MAS estimates

Heightened alert restrictions have had a dampening effect on the pace of core price increases

Abstracting from base effects, the Heightened Alert measures introduced from May led sequential core inflation to dip from 0.4% q-o-q in Q1 to 0.1% in Q2. Discretionary components such as retail goods, point-to-point transport services and recreational & cultural services saw the pace of price increase weaken, as demand was affected by lower mobility. Concomitantly, non-cooked food prices were broadly unchanged in Q2, compared to Q1, even though dining-in restrictions led to an increase in relative demand for non-cooked food.

Conversely, demand for cars and rental accommodation were relatively unaffected

Meanwhile, q-o-q CPI-All Items inflation remained high in Q2 even as it edged down slightly to 0.7%, from 0.8% in Q1. The q-o-q increase in private transport costs picked up further from 3.6% in Q1 to 4.7% in Q2. In addition, accommodation costs continued to rise, supported by firm rental demand on the back of delays in the completion of housing units.

[11] As international travel remains limited, there is still an absence of a representative sample of prices of most travel-related services (including airfares, coach fares and holiday expenses). Hence, these services remain largely imputed using the sequential price change of CPI-All Items index (excluding the imputed components), in line with international practice. The CPI for these travel-related services do not fully reflect their actual price changes. Excluding these travel-related services, core inflation rose from 0.3% to 0.6%.

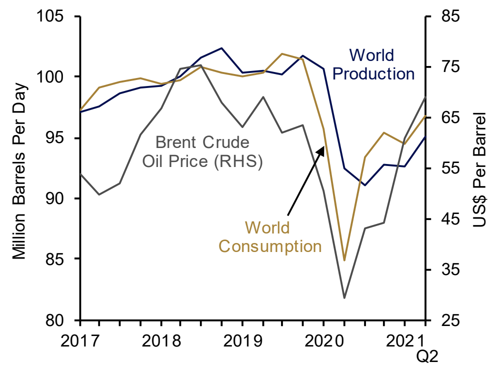
Overall, higher private transport inflation accounted for over two-thirds of the y-o-y rise in CPI from its low in Q2 2020.

External inflation has risen, led by higher global oil and food prices

Global oil prices rose by 13.2% q-o-q in Q2 2021 on account of tight supplies arising from the production restraint by OPEC and its partners as oil demand grew **(Chart 3.5)**. International food prices have also increased further by 7.1% q-o-q in Q2 2021, underpinned by firmer demand (partly due to stockpiling efforts globally) while poor weather conditions and virus-induced supply chain disruptions continued to hinder supply. While the surge in global food prices was primarily driven by sustained hikes in the price of vegetable oil, prices of other food commodities including meat, dairy and cereals have risen too **(Chart 3.6)**.

Chart 3.5 Brent crude oil prices rose further alongside higher demand and tight supply

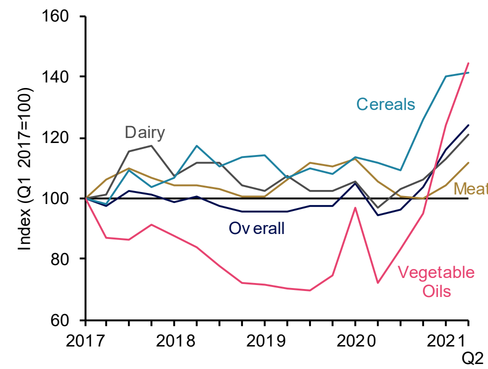
Brent crude oil prices, global liquid fuels production and consumption



Source: US Energy Information Administration

Chart 3.6 Global food prices continued to increase on the back of stronger demand

UN FAO Price indices for selected food commodities



Source: UN FAO

Core inflation is expected to increase in H2 2021

The upward pressure on global inflation should ease in the latter part of this year. Surplus oil production capacity should cap the extent of oil price increases, while virus-induced supply-side disruptions contributing to higher global food inflation should wane. While there is the risk that inflation could persist in some major economies, this would be tempered by the continued negative output gaps in regional economies, which should help to moderate Singapore's overall import price inflation.

On the domestic front, MAS Core Inflation will gradually increase in the coming quarters, although the return to tighter measures under Phase 2 (Heightened Alert) will dampen the momentum in underlying inflation in early H2. In addition, uncertainty in the economic outlook will weigh on consumer sentiment and hence price increases in the near term. For the year as a whole, wage growth is expected to be muted as the slack in labour market takes time to be fully absorbed, while commercial rents are projected to stay low. Meanwhile, private transport and accommodation costs should remain resilient on the back of firm demand for cars and rental accommodation, although the pace of increase in private transport costs is likely to slow as base effects fade. Taken together, CPI-All Items is expected to ease in the latter part of the year.

In 2021, MAS Core Inflation is projected to average 0–1%, while CPI-All Items inflation is forecast to come in between 1–2%.

4 Monetary Policy

Monetary policy settings were kept accommodative in April

In the April 2021 Monetary Policy Statement (MPS), MAS maintained the rate of appreciation of the S$NEER policy band at zero per cent per annum, with no change to the width of the band and the level at which it was centred. At that time, the outlook for the Singapore economy had brightened on expectations of a stronger pick-up in the global economy. However, the domestic recovery was projected to be uneven and incomplete in 2021. Core inflation was rising from its lows but was expected to remain well below its historical average this year amid still-elevated slack. Moreover, the economy continued to be confronted by significant downside risks from adverse pandemic developments which could derail the recovery. An accommodative monetary policy stance was thus assessed to be appropriate, to support the narrowing of the output gap and ensure medium-term price stability.

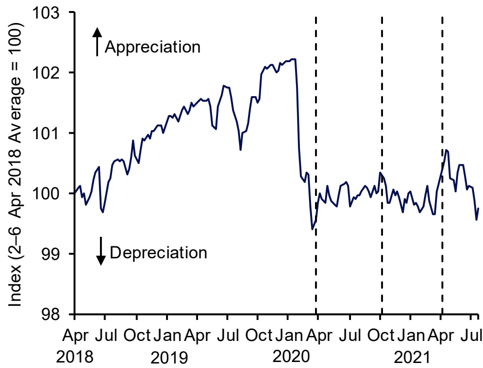
Since then, the S$NEER has eased within the policy band, buffering the economy from temporary COVID-related disruptions

The S$NEER saw a brief spell of upward pressures following the April MPS, as a strong Q1 GDP outturn led to growing optimism over Singapore's recovery prospects this year. However, appreciation pressure subsequently dissipated and the S$NEER depreciated over May to July, as the emergence of new waves of COVID-19 infections domestically led to the re-imposition of public health measures. Since then, the easing of the S$NEER has been orderly and broadly in line with the weaker growth and inflation outturns in Q2 **(Chart 4.1)**.

Domestic interest rates have dipped slightly over the last three months in tandem with US rates, and thus continued to be supportive of the economy. The 3-month S$ SIBOR, compounded Singapore Overnight Rate (SORA) and Swap Offer Rate (SOR) fell by 1, 6 and 13 basis points respectively between April and July, and were close to their all-time lows **(Chart 4.2)**.

Chart 4.1 The S$NEER has been on a broad downtrend since the policy review in April

S$NEER, weekly average

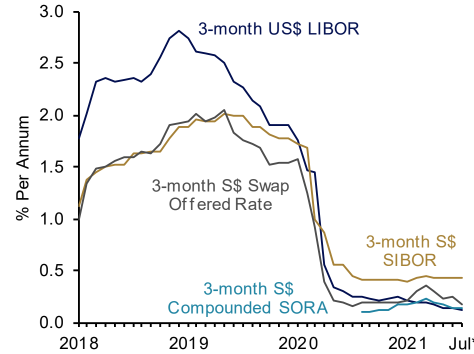


Source: EPG, MAS estimates

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

Chart 4.2 Domestic interest rates moderated slightly over the past three months

US$ and S$ interest rates, end of month



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

* As at 30 July 2021

Fiscal and financial support measures were enhanced and extended, following tighter public health restrictions from May

Recognising that re-imposition of heightened alert restrictions to curb the renewed outbreaks of infections would weigh on cashflows and incomes, the government announced two additional fiscal support packages in May and July, amounting to a total of $2.1 billion. Together with the continued disbursements from Budget 2020 and 2021, the latest fiscal injections would help firms and individuals most affected by the setback in recovery.

First, firms in directly impacted sectors received wage and rent support to tide them through the temporary decline in revenues. Enterprises in sectors that had to suspend most of their operations, or were significantly impacted by domestic mobility restrictions, received wage subsidies of between 30 and 60% to retain their local employees through an enhanced Job Support Scheme. At the same time, the government provided rental waivers to qualifying tenants in government-owned properties and cash payouts to eligible firms in commercially owned properties to further reduce cashflow strains.

Second, affected individuals and sole proprietors were also accorded direct assistance. Market stallholders and hawkers were granted cash payouts from a new Market and Hawker Centre Relief Fund, while the Food Delivery Booster Package by Enterprise Singapore (ESG) was reintroduced to help hawkers defray the costs of using online food delivery platforms. Taxi and private car drivers received assistance from the COVID-19 Driver Relief Fund to mitigate the impact of lower ridership on their earnings. Meanwhile, the COVID-19 Recovery Grant (Temporary) was introduced to help tide employees and self-employed persons suffering significant income loss over this period.

MAS, ESG and the financial sector also extended a number of financial measures to support individuals and firms during the heightened alert period as well as into the rest of the year and beyond. With public health measures still weighing down on some pockets of the economy, MAS and the industry extended existing industry-wide loan repayment support measures for eligible individuals and small and medium-sized enterprises in Tier 1 and 2 sectors.[12] In addition, MAS extended the MAS SGD Facility for ESG Loans, which will complement the six-month extension of ESG's Temporary Bridging Loan Programme from 1 October 2021 to 1 March 2022, to keep borrowing costs low for local enterprises as they recover and adapt to the new normal. Domestic and regional USD financing conditions will also benefit from MAS' extension of the US$60 billion swap agreement with the US Federal Reserve, and the associated MAS USD Facility.

Complementary monetary, fiscal and financial policies will support Singapore's economic recovery.

The timely and targeted manner of macroeconomic policy implementation will support individuals and businesses through the financial strains from this most recent phase of restrictions. In recent weeks, the COVID-19 Multi-Ministry Task Force has set out in greater detail the roadmap for the normalisation of economic and social activities in Singapore. As domestic vaccination rates pass critical thresholds in the months ahead, the progressive re-opening of the economy should bolster the recovery trajectory. Nevertheless, there remain significant uncertainties over the path of the pandemic both globally and domestically, including the possibility of virus mutations that vaccines may be less effective against.

[12] Tier 1 and 2 sectors comprise of aviation and aerospace, tourism, hospitality, conventions and exhibitions, built environment, licensed food shops and food stalls (including hawker stalls), qualifying retail outlets, arts and entertainment, land transport and marine and offshore.

Selected Indicators

GENERAL INDICATORS, 2020			
Land Area (Sq km), 2021	728.6	Literacy Rate* (%)	97.1
Total Population ('000)	5,685.8	Real Per Capita GDP (US$)	56,380
Labour Force ('000)	3,713.9	Gross National Savings (% of GNI)	45.8
Resident Labour Force Participation Rate (%)	68.1		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2020		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2020	
Manufacturing	21.5	Private Consumption	33.0
Wholesale Trade	16.8	Private Gross Fixed Capital Formation	17.9
Finance & Insurance	15.7	Public Consumption	12.4
Other Services Industries	10.8	Public Gross Fixed Capital Formation	3.6
Professional Services	5.9	Increase in Stocks	1.1
Transportation & Storage	5.4	Net Exports of Goods & Services	31.9
Information & Communications	5.1		
Administrative & Support Services	4.5		
Real Estate	3.0		
Construction	2.7		
Retail Trade	1.4		
Food & Beverage Services	1.0		
Accommodation	0.4		

MAJOR EXPORT DESTINATIONS (% SHARE), 2020		MAJOR ORIGINS OF IMPORTS (% SHARE), 2020	
Total Exports (S$ Billion)	**515.6**	**Total Imports (S$ Billion)**	**453.5**
China	13.7	China	14.4
Hong Kong	12.4	Malaysia	12.7
US	10.5	Taiwan	11.0
Malaysia	8.9	US	10.7
Indonesia	5.7	Japan	5.5
ASEAN	25.1	ASEAN	24.3
NEA-3	21.7	NEA-3	16.9
EU	8.4	EU	10.3

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2020		MAJOR IMPORTS BY COMMODITY (% SHARE), 2020	
Domestic Exports (S$ Billion)	**234.4**	**Total Imports (S$ Billion)**	**453.5**
Mineral Fuels	20.3	Electronics	33.8
Chemicals	19.6	Machinery & Transport Equipment (ex. Electronics)	18.3
Electronics	16.5	Mineral Fuels	14.9
Machinery & Transport Equipment (ex. Electronics)	11.8	Chemicals	8.5
Manufactured Articles	10.0	Manufactured Articles	8.4
Food and Live Animals	4.7	Manufactured Goods	5.2

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	2019	2020	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	May 21	Jun 21
GDP at current prices (S$ bil)	510.7	469.1	106.2	116.2	122.7	125.9	127.1	na	na
GDP (US$ bil)	374.5	340.4	75.3	84.6	91.1	94.5	95.4	na	na
Real GDP Growth (YOY % change)	1.3	-5.4	-13.3	-5.8	-2.4	1.5	14.7	na	na
Real GDP Growth (QOQ SA % change)	na	na	-13.1	9.0	3.8	3.3	-1.8	na	na
By Sector (YOY % change):									
Manufacturing [1/]	-1.5	7.3	-0.4	11.0	10.3	11.4	17.7	27.0	27.5
Construction	1.6	-35.9	-65.6	-52.5	-27.4	-23.2	106.2	na	na
Wholesale Trade	-0.8	-2.4	-3.0	-5.0	1.8	3.5	2.9	na	na
Retail Trade	-2.4	-16.0	-41.3	-8.6	-4.7	1.6	50.7	na	na
Transportation & Storage	0.2	-25.4	-37.5	-29.0	-27.4	-15.8	20.9	na	na
Accommodation	0.1	-28.7	-35.5	-20.5	-19.7	16.3	13.2	na	na
Food & Beverage Services	0.3	-25.1	-45.9	-24.1	-19.0	-9.2	36.7	na	na
Information & Communications	12.1	2.1	-0.8	1.4	2.6	6.8	9.6	na	na
Finance & Insurance	7.8	5.0	3.1	4.2	4.9	5.7	9.1	na	na
Real Estate	-1.6	-14.2	-26.4	-17.7	-10.8	-3.1	25.8	na	na
Professional Services	5.4	-9.7	-16.8	-10.7	-7.5	-4.5	9.4	na	na
Administrative & Support Services	-10.5	-15.1	-20.7	-19.4	-14.9	-15.1	-1.3	na	na
Other Services Industries	3.6	-8.9	-18.0	-8.7	-5.7	0.5	15.8	na	na
By Expenditure Component (YOY % change):									
Consumption	**3.5**	**-7.9**	**-19.4**	**-6.4**	**-6.3**	**-3.4**	**17.5**	**na**	**na**
Private	3.3	-14.1	-29.4	-13.0	-11.3	-7.5	23.5	na	na
Public	3.4	12.6	19.8	15.8	9.6	6.3	1.8	na	na
Gross Fixed Capital Formation	**1.2**	**-13.7**	**-27.9**	**-23.0**	**-4.7**	**-5.3**	**30.8**	**na**	**na**
Private	1.1	-11.2	-25.3	-18.6	-0.5	-1.4	26.0	na	na
Public	1.5	-24.2	-40.5	-42.7	-23.3	-19.0	59.8	na	na
External Demand	**0.1**	**-4.3**	**-12.4**	**-5.0**	**-3.5**	**-1.4**	**14.4**	**na**	**na**

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

Trade	2019	2020	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	May 21	Jun 21
Total Exports, fob (YOY % change)	**-4.2**	**-3.2**	**-11.4**	**-2.2**	**-2.9**	**6.9**	**26.1**	**29.8**	**22.3**
Non-Oil Domestic Exports	-9.2	4.3	5.8	6.5	-0.5	9.7	10.1	8.6	15.9
Re-Exports	2.3	0.1	-6.9	0.3	3.4	13.6	26.4	31.5	14.7
Total Imports, cif (YOY % change)	**-2.1**	**-7.4**	**-16.6**	**-7.6**	**-7.6**	**2.7**	**28.6**	**32.2**	**28.3**
Wage-price Indicators									
Unemployment Rate (SA, %)	2.2	3.0	2.8	3.5	3.3	2.9	2.7 #	2.8	2.7
Average Nominal Wages (S$ per month)	5,549	5,629	5,276	5,214	5,877	6,159	na	na	na
Consumer Price Index Inflation (YOY % change)	0.6	-0.2	-0.7	-0.3	-0.1	0.8	2.3	2.4	2.4
MAS Core Inflation (YOY % change)	1.0	-0.2	-0.2	-0.3	-0.2	0.2	0.7	0.8	0.6
Financial Indicators									
S$ Exchange Rate Against: (end-period)									
US Dollar	1.3472	1.3221	1.3932	1.3692	1.3221	1.3472	1.3444	1.3228	1.3444
100 Japanese Yen	1.2398	1.2814	1.2931	1.2965	1.2814	1.2152	1.2168	1.2059	1.2168
Euro	1.5094	1.6249	1.5658	1.6059	1.6249	1.5770	1.6001	1.6135	1.6001
Interest Rates (end-period, % p.a.)									
3-month Fixed Deposit Rate	0.20	0.13	0.18	0.14	0.13	0.12	0.12	0.12	0.12
3-month S$ SIBOR [2/]	1.77	0.41	0.56	0.41	0.41	0.44	0.43	0.44	0.43
Prime Lending Rate	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Money Supply (end-period)									
Broad Money, M2 (YOY % change)	5.0	13.2	11.0	10.9	13.2	10.8	6.1	7.0	6.1
Straits Times Index (end-period) [3/]	**3,222.8**	**2,843.8**	**2,589.9**	**2,466.6**	**2,843.8**	**3,165.3**	**3,130.5**	**3,164.3**	**3,130.5**
YOY % change	5.0	-11.8	-22.0	-20.9	-11.8	27.6	20.9	26.0	20.9

Source:
[2/] ABS Benchmarks Administration Co Pte Ltd
[3/] Straits Times Index from SGX
na: Not available
#: Preliminary estimates

Government Budget [4/]	2019	2020	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	May 21	Jun 21
Operating Revenue (S$ mil)	75,299	62,127	8,660	17,164	18,520	23,032	21,809	na	na
Total Expenditure (S$ mil)	**76,047**	**83,511**	**18,448**	**18,424**	**19,858**	**29,636**	**18,391**	**na**	**na**
Operating Expenditure	57,987	68,660	14,835	16,049	17,347	24,706	14,021	na	na
Development Expenditure	18,060	14,851	3,613	2,376	2,511	4,929	4,370	na	na
Primary Surplus/Deficit (S$ mil)	**-748**	**-21,384**	**-9,788**	**-1,260**	**-1,338**	**-6,603**	**3,418**	**na**	**na**
% of GDP	-0.1	-4.6	-9.2	-1.1	-1.1	-5.2	2.7	na	na

Balance of Payments									
Current Account Balance (% of GDP)	**14.3**	**17.6**	**19.3**	**19.6**	**16.0**	**19.4**	**20.2**	**na**	**na**
Goods Balance	25.9	27.5	32.0	29.7	24.9	24.7	28.9	na	na
Services Balance	2.4	4.4	4.6	5.8	5.6	4.1	5.1	na	na
Primary Income Balance	-11.9	-12.2	-14.8	-13.7	-12.7	-7.5	-11.9	na	na
Secondary Income Balance	-2.1	-2.1	-2.5	-2.2	-1.8	-1.8	-2.0	na	na
Capital & Fin Account Balance (% of GDP)	**16.5**	**-4.2**	**-22.8**	**6.4**	**-13.2**	**-6.4**	**4.0**	**na**	**na**
Direct Investment	-18.7	-16.2	-20.5	-13.6	-15.7	-18.1	-20.5	na	na
Portfolio Investment	28.4	15.1	10.5	20.8	24.9	11.9	20.5	na	na
Financial Derivatives	2.5	4.1	3.3	4.8	4.5	2.0	3.9	na	na
Other Investment	4.2	-7.2	-16.2	-5.6	-27.0	-2.0	0.1	na	na
Overall Balance (% of GDP)	**-2.2**	**22.0**	**42.6**	**12.3**	**30.0**	**25.6**	**17.1**	**na**	**na**
Official Foreign Reserves (US$ mil) [5/]	**279,450**	**362,305**	**312,497**	**328,022**	**362,305**	**379,754**	**398,357**	**398,074**	**398,357**
Months of Imports	9.3	13.2	11.0	11.7	13.2	13.6	13.2	13.5	13.2

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