Singapore

Outlook

								Forecast	
	Average 10-14	2015	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	6.8	3.0	3.3	4.5	3.5	1.3	-5.4	5.2	3.2
CPI Inflation (%)*	3.2	-0.5	-0.5	0.6	0.4	0.6	-0.2	0.2	0.8
Fiscal balance (% of GDP)	6.3	2.9	3.7	5.3	3.7	3.8	-8.9	-0.2	3.1
Public debt (% of GDP)	100.9	102.2	106.5	107.8	109.8	129.0	128.4	129.5	130.7
Reference rate (%)*	0.1	0.5	0.3	0.7	1.3	1.8	0.4	0.4	0.4
Exchange range (SGD/USD)*	1.3	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4
Current balance (% of GDP)	19.3	18.7	17.6	17.3	15.4	14.3	17.6	14.6	14.4
External debt (% of GDP)	410.3	412.3	402.4	400.1	393.6	412.9	459.0	410.7	382.0

Note: * Annual average.
Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- **Singapore is recovering from COVID-19.** Being a very open economy, Singapore was hit hard by COVID-19 and, in 2020, GDP slumped by over 5%. However, thanks to a remarkable vaccination campaign and the global economic recovery, Singapore's economy is undergoing a strong recovery, in line with the other economies in the area (ASEAN). This is underpinned by a city-state with a high level of economic welfare (it has the second highest GDP per capita in the world in terms of purchasing power) and whose tourism industry is one of the most competitive in the world. Furthermore, Singapore enjoys political and social stability (the Popular Action Party (PAP), which has governed since Singapore was founded in 1965, has 83 of the 93 seats in parliament). Together with its institutional quality, this has allowed Singapore to consolidate its position as a financial hub (its stock exchange capitalises around 200% of its GDP) and an international centre for the arbitration of disputes.

- **Real shock of COVID-19.** COVID-19 shook Singapore's economy, which recorded a 5.4% decline in GDP in 2020. However, by mid-2021, Singapore had one of the lowest incidence rates in the pandemic, with levels below those of most of its neighbours and far below those prevalent in advanced economies. Moreover, vaccinations are progressing at a remarkable pace. By mid-2021, over 70% of the population had received at least one dose, and almost 50% were fully vaccinated. The outbreak in infections in mid-2021 resulted in a quarter-on-quarter contraction in GDP in Q2 2021, but it will not compromise the recovery in 2021-2022.

- **Financial vulnerabilities.** The net international investment position is positive (around twice the GDP), with the value of assets more than offsetting the value of external debt and providing a strong cushion to cope with any periods of volatility.

  Singapore's constitution stipulates that a balanced budget must be maintained for each five-year political cycle. Thus, investment projects play a notable part in the evolution of public debt, generally in infrastructures which represent income-generating assets. Singapore has zero net debt and its public finances pose no significant risks. Gross public debt, which stands at around 130% of GDP, is offset by the value of the amounts invested. Many of these investments are in the Temasek fund (AAA, 381 billion dollars in Q1 2021) and in the GIC Private Limited sovereign wealth fund (440 billion dollars).

  Singapore has moderate inflation. Despite occasionally rising above 2% in mid-2021, due to the increase in commodity prices and base effects, continued restrictions on tourism and the safeguards of the Monetary Authority of Singapore (MAS) will prevent any inflationary pressures.

Closing date of this edition: 22 July 2021

Outlook *(continued)*

- **Economic policy response**
  - **Pandemic policy.** Singapore hopes to have vaccinated the entire adult population by the end of 2021, with supplies of Pfizer, Moderna and Sinovac. Singapore is a COVAX donor (Covid-19 Vaccines Global Access Facility) to ensure global equitable access to vaccines. Singapore is a pioneer in establishing quarantine-free "bubbles" for business travellers and hermetically sealed meeting rooms and hotels (Connect@Changi).
  - **Fiscal policy.** Singapore is expecting its public deficit to be below 1% of GDP in 2021, after deteriorating to 8.9% in 2020. This will lead to a gradual reduction in stimulus, which will continue for vulnerable households and businesses and healthcare expenditure. For 2021, a budget of 11 billion Singapore dollars (SGD) has been allocated, equivalent to 0.2% of GDP. Furthermore, 24 billion SGD will be used to adapt to new technological changes, for the reconfiguration of supply chains and for inequality and sustainability. This includes grants for innovative businesses and vocational training.
  - **Social protection.** Singapore subsidises the purchase of housing for its citizens, who pay lower prices than foreign buyers. This has resulted in a home-ownership rate of 91% among residents. Furthermore, in 2021, the government restricted involvement in the GIG economy (including Uber and Grab taxis for hire) to people aged 30 and above, to prevent young people from becoming trapped in low-quality employment.
  - **Monetary policy.** The MAS maintains an accommodative monetary policy to support the recovery. Despite rising commodity prices, the MAS does not expect core inflation to exceed 1% in 2021. It expects to meet the objective of keeping the real effective exchange rate of the SGD unchanged.
- **Evolution of the exchange rate.** The SGD is managed through a currency basket arrangement. The high current account surplus (around 14% of GDP) allows it to cope with any exchange volatility.

Main risks

The unfolding of the pandemic and medical advances are the major determining factors of this situation. In addition to new variants and the premature withdrawal of support policies, the risks include:

- The non-financial business sector had good liquidity cushions prior to the pandemic and the post-pandemic prospects of a strong profit recovery are good. However, the increased debt burden caused by the pandemic is a determining factor that should not be overlooked, despite these cushions.
- Singapore is vulnerable to global spikes in financial volatility, which could occur due to more persistent inflationary pressures in large international economies or if new variants of COVID-19 were to jeopardise its future outlook.
- Singapore has not capitalised on tensions between China and the US and the political turmoil in Hong Kong as much as might have been expected. Additionally, it has seen a fall in the number of companies listed on its stock exchange, which has lost momentum compared to Hong Kong and the Chinese markets.
- Slowdown in economic growth (from 7.3% in 2002-2007 to 3.6% in 2012-2019). The ageing population, the technological transformation and climate change present challenges for stimulating underlying growth.
- Singapore's status as a managed democracy does not pose any significant short-term risks, although the precarious situation of migrant workers and demographic changes could affect its stability, as illustrated by the relatively poor result of the PAP in the 2020 elections. Its geographical location poses some risks but also provides opportunities, as it is in the middle of one of the most economically dynamic regions on the planet.
- Singapore's neutral stance regarding the dispute between the US and China may become subject to geopolitical tensions. Moreover, this dispute and the threats to globalisation may hinder Singapore's foreign sector.

	Rating	Last modification	Outlook	Last modification
Standard & Poor's	AAA	14/05/03	Stable	14/05/03
Moody's	Aaa	14/06/02	Stable	14/06/02
Fitch Ratings	AAA	06/03/95	Stable	06/03/95

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

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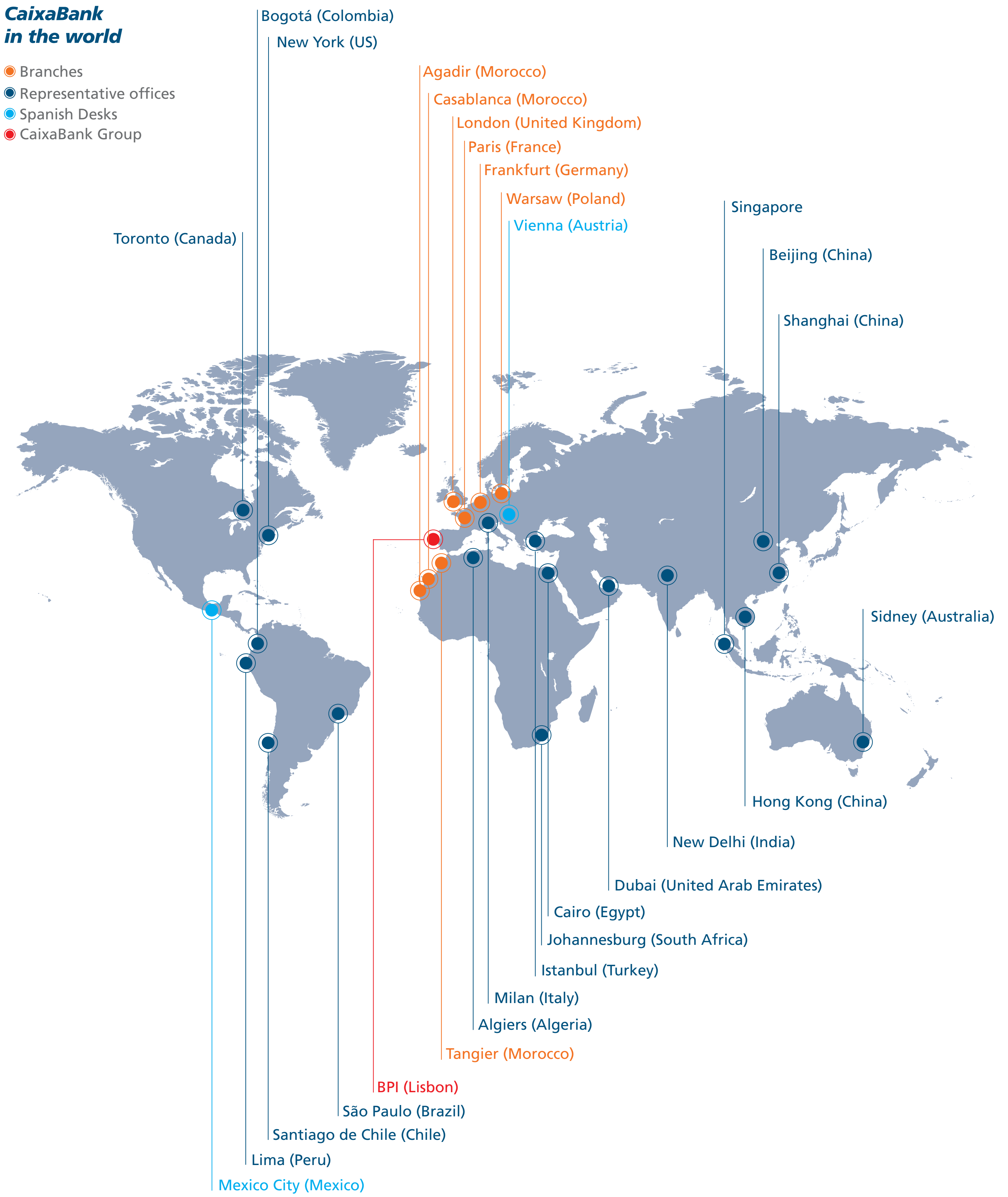

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