



Monetary Authority
of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

30 July 2020

Highlights

- **Global economic activity contracted sharply in H1 2020 amid measures imposed to contain the spread of the pandemic.** Global GDP fell by 13.8% q-o-q SAAR in Q1 2020, and high frequency indicators indicate an even more severe decline in Q2 2020 when lockdowns intensified and became widespread in most countries. In general, services activity was hit harder than manufacturing, with international tourism coming to an almost complete stop. Concomitantly, consumer price inflation has declined alongside the sharp contraction in global demand and fall in oil prices.
- **There has been some recovery in economic activity around the world since May as a decline in infections allowed governments in most countries to ease lockdowns, supported by substantial loosening of monetary and fiscal policies.** However, the rebound will be uneven and hesitant as households and businesses are confronted with increased uncertainty, with a high likelihood that recurrent localised outbreaks of the virus will hamper the recovery. The global economy is projected to shrink by 3.4% in 2020 and is not expected to regain its end-2019 output level until Q1 2021. Asia ex-Japan's contraction is expected to be milder at -2.0%, in part due to China's early emergence from lockdown, although there will be substantial variation between countries. The path of the virus is the key risk to the global outlook, and tensions over trade and access to markets among major economies could exacerbate the downsides.
- **Global financial stability risks have risen.** As economic activity contracted, corporates' cashflows slowed sharply, reducing their debt servicing ability. At the same time, businesses accumulated even more debt from already-high levels, and with activity remaining low, credit risk for banks has increased. A reimposition of strict movement restrictions in response to renewed COVID-19 outbreaks or a removal of government support before the economy recovers from the shock could trigger corporate defaults, a pullback in bank credit, and a shift in risk sentiment. This could in turn lead to emerging market economies facing a resurgence of capital outflows, leading to a cycle of depressed exchange rates, tightened financial conditions and further rise in refinancing risks.

- **The Singapore economy suffered a severe contraction in Q2, with GDP declining by 41.2% on a q-o-q SAAR basis.** In y-o-y terms, it contracted by 12.6%, bringing growth in H1 to -6.5%. The downturn was evident across most industries, and those that were worst-hit by the pandemic—travel-related, consumer-facing domestic-oriented and construction—had an outsized impact on overall GDP. In comparison, the manufacturing and financial sectors were less affected, with the former supported by the stellar performance of the pharmaceuticals industry, and the latter benefiting from strong growth in insurance and other auxiliary activities. While the progressive reopening of the economy should result in a sequential improvement in Q3 from the trough in Q2, the recovery ahead is likely to be uneven. The worst-hit sectors and some segments within business services would likely still operate below their pre-pandemic levels.
- **Core and headline inflation both dipped into negative territory in Q2, as prices of travel-related services, retail goods and private transport declined, and food services inflation eased.** Non-cooked food prices was the sole major component of the core CPI basket that rose on the back of strong demand and international supply disruptions. Meanwhile, the slack in the domestic labour market widened in H1 as employment contracted sharply. Foreigners bore the initial brunt of job losses. Many who remained employed also saw their working hours and incomes reduced. With labour market conditions expected to weaken in the quarters ahead and external price pressures benign, inflation is expected to stay subdued for the rest of the year. Both MAS Core Inflation and CPI-All Items inflation are forecast to average between -1% and 0% in 2020.
- **Timely and concerted policy responses from the government and MAS has helped to mitigate the economic impact of COVID-19 on businesses and households.** At the heart of Singapore’s economic response is an exceptional \$92.9 billion fiscal package, announced by the government over four budgets. MAS also eased its monetary policy stance and ensured sufficient liquidity in financial system. Easier domestic monetary conditions were complemented by measures MAS introduced together with the financial industry to ensure businesses and households retained access to credit and received relief on their existing financial obligations. Together, these fiscal, monetary and financial measures have averted severe lasting damage to the economy and would be supportive of the recovery.

1. The International Economy

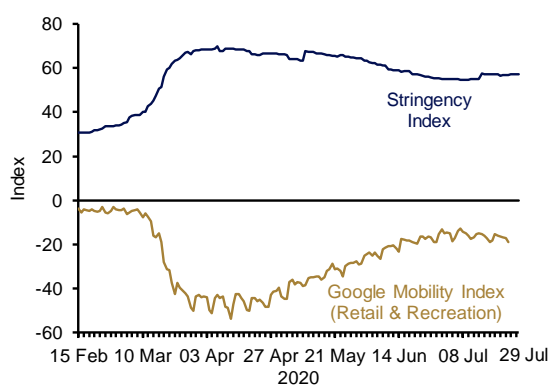
An uneven and hesitant recovery from the COVID-19 shock has begun, with significant downside risks

The pandemic, and movement restrictions put in place to contain it, caused a sharp contraction in global economic activity in H1 2020. Global GDP fell by 13.8% q-o-q SAAR¹ in Q1, a much larger decline than the worst quarter of the Global Financial Crisis (-5.5% q-o-q SAAR in Q1 2009).

An even more severe contraction likely occurred in Q2 2020, as virus containment measures were at their most stringent² from end-March to May (**Chart 1.1**). As a result, economic activity was severely disrupted, with “high-contact”, labour intensive services hit significantly harder due to forced shutdowns and social distancing measures. The global services PMI troughed at 23.7, much lower than 39.6 for manufacturing (both April readings). As countries closed their borders, international tourist arrivals plunged by an unprecedented 97% y-o-y in April.³ Meanwhile, global industrial production volumes fell by an average of 12.2% y-o-y over April and May, the largest decline since 2009. Concomitantly, global merchandise trade volumes decreased by 17.7% y-o-y in May, also the largest fall since 2009 (**Chart 1.2**).

Chart 1.1 Population mobility has risen alongside a decline in virus containment stringency

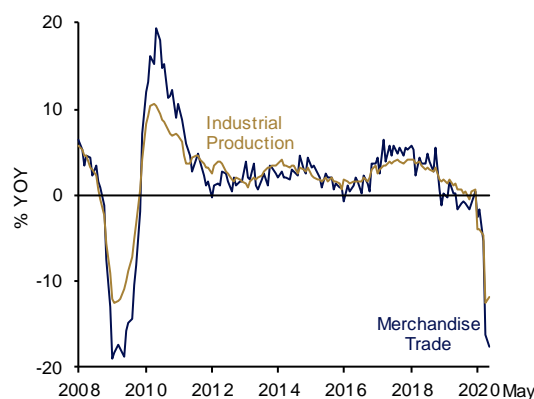
Stringency Index vs Google Mobility Index⁴ (Retail and Recreation)



Source: Google Mobility Community Reports, Oxford University Blavatnik School of Government, and EPG, MAS estimates

Chart 1.2 Global industrial production and merchandise trade volumes fell sharply in H1

Global Merchandise Trade and Industrial Production Volumes



Source: CPB and EPG, MAS estimates

¹ Global and regional aggregated GDP weighted by shares in Singapore’s non-oil domestic exports, unless otherwise specified.

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

³ United Nations World Tourism Organisation World Tourism Barometer and Statistical Annex, June 2020

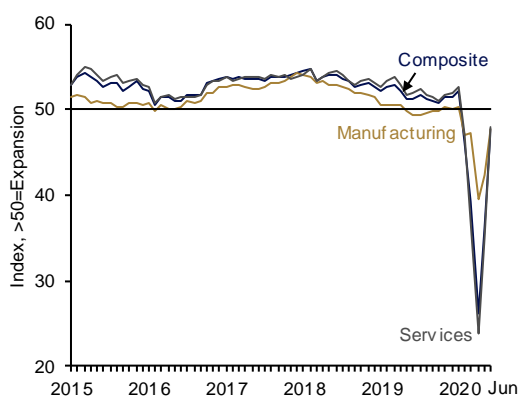
⁴ The Google Mobility Index is computed similarly to the stringency index but excludes China due to lack of data. The baseline for the Google Mobility Index is the median value for the corresponding day of the week, during the 5-week period from 3 Jan–6 Feb 2020.

Many countries began to relax mobility restrictions in May as new infections declined; the global stringency index has since reverted to early March levels. There are signs that the world economy bottomed out in May, with activity and output rising in June. Total trade (in US\$ terms) from regional bellwethers Taiwan, Korea and China was down 1.4% y-o-y in June, significantly smaller than the average 7.2% y-o-y decline over the preceding three months. The J.P. Morgan global composite PMI rose sharply to 47.7 in June from 36.3 in May (**Chart 1.3**), while flash PMIs for the US, UK and Eurozone moved into expansionary territory in July. In China, which was the first country to experience a COVID-19 outbreak and emerged from lockdown ahead of other economies, activity began picking up in April, supported in part by higher fiscal spending on public infrastructure investment. After contracting 36.5% q-o-q SAAR in Q1, China's economy expanded 59.5% q-o-q SAAR in Q2 2020.

National governments and central banks, confronted with the biggest negative shock to hit the world economy since the Second World War, have rapidly and aggressively loosened fiscal and monetary policies, with the common aim of mitigating the impact on corporate and household finances and preserving jobs. These sizeable fiscal and financial sector countermeasures have forestalled worse near-term economic losses. According to estimates from the International Monetary Fund (IMF)⁵, the global fiscal deficit will rise by 10%-points in 2020, double the increase of 4.9% in 2009 amid the Global Financial Crisis (**Chart 1.4**).

Chart 1.3 Global PMIs are recovering, led by manufacturing

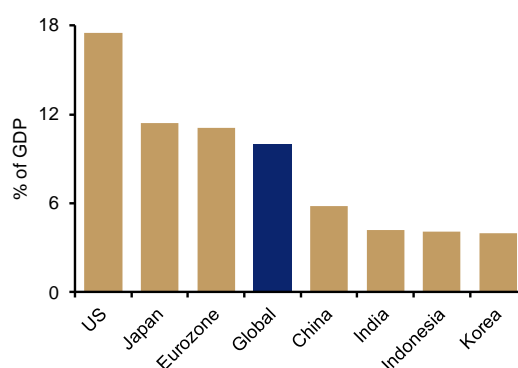
Global PMI Indices



Source: IHS Markit

Chart 1.4 Governments have deployed substantial fiscal resources

Change in Fiscal Deficit 2020 vs 2019, in %-points of GDP



Source: IMF and EPG, MAS estimates

Note: Deficit measure is general government fiscal balance as a share of GDP.

Meanwhile, central banks in most of the major economies have reduced policy rates to their effective lower bounds, or close to them, and many have restarted quantitative easing (QE) programmes. EM central banks have also loosened policy substantially. The array of easing measures across monetary, liquidity and regulatory policy has succeeded in reversing much of the tightening in financial conditions that occurred earlier in the year (**Chart 1.5**). The

⁵ IMF World Economic Outlook Update, June 2020

recovery in risk appetite also provided the backdrop for a resumption of portfolio flows into emerging markets, after record outflows over late February to early April.

The global economy is projected to record a sequential expansion of 3.3% in H2, after contracting by 5.6% in H1. The recovery is expected to continue into 2021, taking full-year growth to 6.1% (**Table 1.1**). It is likely that the economic rebound will continue to be hampered by occasional localised COVID-19 outbreaks, with attendant partial and temporary re-imposition of movement restrictions. Even in economies where the virus has been relatively well-contained, post-lockdown social distancing measures and concerns over a potential resurgence in infections are hindering a return to pre-COVID patterns of work and consumption. Demand will be constrained in the medium term by damage to households' and businesses' balance sheets. Heightened uncertainty ensuing from these factors will provide a further headwind to the recovery.

Consequently, the end-2019 level of global output is projected to be regained only in Q1 2021. The enduring effect of the shock stems from the impairment of productive capacity due to postponed investments, as well as the impact of job losses on human capital. Some output will be lost permanently rather than deferred, particularly in industries providing a recurring service such as entertainment and F&B. Accordingly, the level of global GDP by the end of 2021 is projected to be 3.6% below what had been forecast before the advent of the COVID-19 shock (**Chart 1.6**).

Table 1.1 Global GDP troughed in Q2 2020 and is expected to recover gradually into 2021

	QOQ SAAR (%)			Annual (%)		
	2020 Q1	2020 Q2*	2020 Q3*	2019	2020*	2021*
G3	-7.9	-36.5	22.3	1.5	-6.7	5.1
Asia ex-Japan	-16.6	-6.6	15.9	3.8	-2.0	6.7
ASEAN-5	-7.4	-25.9	17.1	4.5	-3.1	6.5
Global	-13.8	-16.9	17.4	3.1	-3.4	6.1

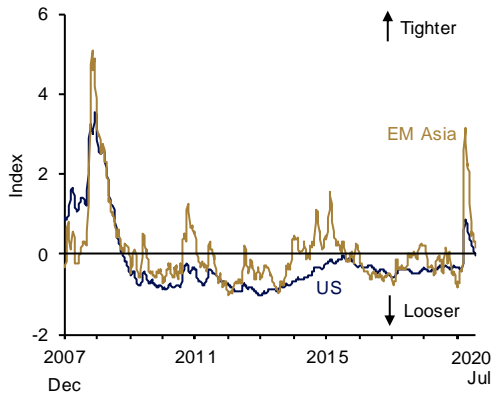
Source: Haver Analytics and EPG, MAS estimates

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

Chart 1.5 Financial conditions in the US and EM Asia have loosened

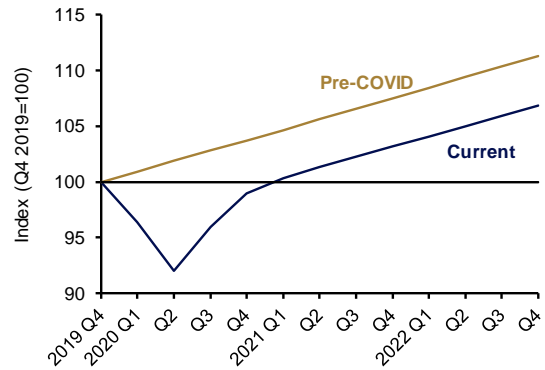
US and Emerging Asia Financial Conditions Indices



Source: Chicago Fed and Citi Velocity

Chart 1.6 Global GDP is expected to be 3.6% below pre-COVID forecasts at the end of 2021

Index of Global GDP, weighted by country shares in Singapore's NODX



Source: Haver Analytics and EPG, MAS estimates

Global inflation has fallen in line with weak aggregate demand and low energy prices

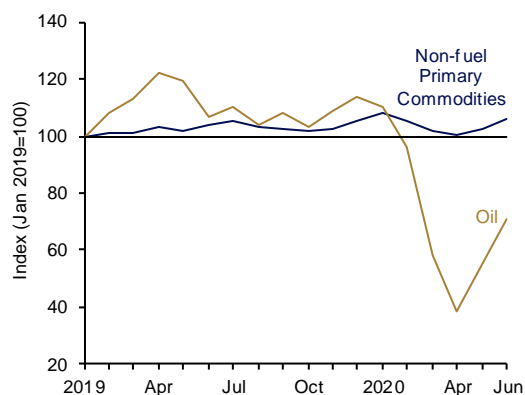
Consumer price inflation has declined as the effects from the sharp contraction in global demand have dominated the interruptions to supply. Inflationary pressures have been further dampened in the short term by the year-to-date decline in commodity prices, in particular global oil prices (**Chart 1.7**). Global headline inflation came in at 0.1% y-o-y⁶ in Q2 2020, compared to 1.9% y-o-y in Q1 2020. With underlying demand-pull pressures largely absent, core inflation has also remained sluggish. Reflecting the decline in actual inflation and heightened uncertainty over the outlook, inflation expectations in the G3 economies tumbled to very low levels in April. Market-derived measures of inflation expectations have also picked up slightly alongside the modest recovery in economic activity in May and June but remain well below historical averages (**Chart 1.8**).

Inflation is likely to remain subdued, given lingering demand weakness. All in, global CPI inflation is expected to come in at 0.7% in 2020, down from 1.5% in 2019, before rising to 1.5% in 2021 in line with the recovery in economic activity. Still, this remains below the average of 2.2% seen in 2011–19.

⁶ The global CPI aggregate is weighted by country shares in Singapore's direct imports.

Chart 1.7 Commodity prices have risen slightly but remain low

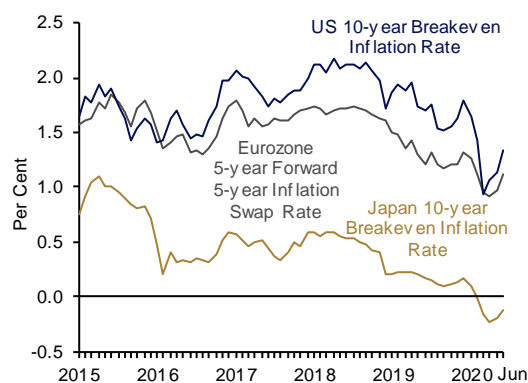
Non-fuel Primary Commodities Price Index and Brent Crude Prices



Source: IMF and EPG, MAS estimates

Chart 1.8 Market-based measures suggest inflation expectations in the G3 have picked up

G3 Breakeven Inflation Rates and Forward Swap Rates



Source: Bloomberg

Activity in major advanced economies stabilised in May and June, but the threat of a COVID-19 resurgence poses downside risks to the recovery

Output in the G3 contracted by 7.9% q-o-q SAAR in Q1 2020, with the severity of the downturn largely in line with the stringency and duration of containment measures in each economy. The Eurozone's economy shrank by 13.6% q-o-q SAAR in Q1, compared to -5.0% for the US, reflecting the earlier onset of the virus in Europe and greater severity of movement restrictions there during the quarter. Japan experienced a smaller 2.2% q-o-q SAAR decline as the country's virus outbreak was not as severe and the authorities imposed relatively mild mobility restrictions only in mid-April.

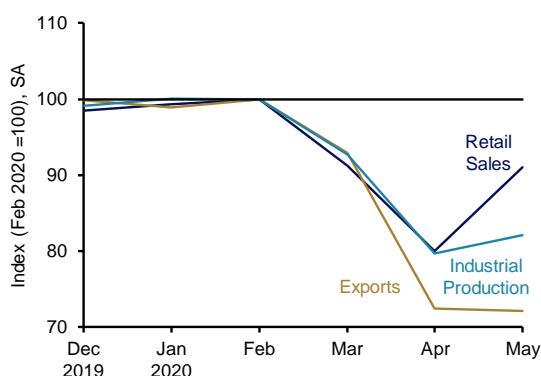
Activity is expected to weaken further in Q2 as strict public health measures were in force for a greater proportion of the period. Higher-frequency indicators show that household spending, exports and business activity in the G3 plunged across the board in April. As national authorities eased restrictions in May, activity began to rebound, bolstered by policy support that supplemented household incomes, maintained employment and facilitated the flow of credit for businesses. While G3 output in May has remained well below pre-COVID levels (**Chart 1.9**), activity recovered further in June and July. Data on US retail sales and industrial production available for June showed strong monthly growth, with retail sales picking up to just 0.6% below the pre-pandemic level. The flash PMI composite index also suggests that overall output in the G3 returned to expansion in July (**Chart 1.10**). The future output PMI sub-index rose further to 56.6 in the July flash readings, from 55.5 in June, indicating businesses see a strengthening in the momentum of the recovery.

In aggregate, the G3 is projected to contract by an average of 6.7% in 2020, before expanding by 5.1% in 2021. Despite the solid growth rebound, the advanced economy group is not expected to regain its end-2019 GDP level until mid-2022. The more protracted nature of the G3's recovery relative to Asia ex-Japan partly reflects the generally higher weight of services in the former; some leisure activity that was impossible during lockdowns for instance will be foregone rather than deferred. The progress of the virus is the key risk to the

outlook. The US has seen renewed but thus far localised outbreaks that in some cases have required the re-imposition of movement restrictions.

Chart 1.9 Activity likely troughed in April, but remains well below the pre-COVID level

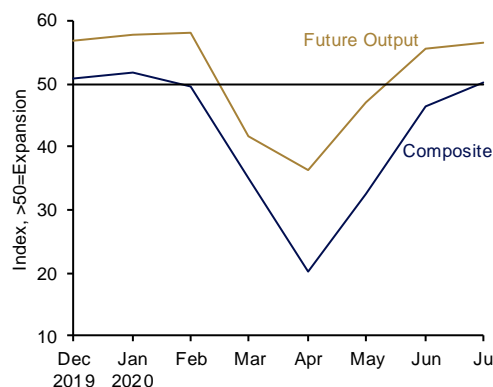
G3 Retail Sales, Industrial Production and Exports, weighted by country shares in Singapore's NODX



Source: Haver Analytics and EPG, MAS estimates

Chart 1.10 PMI indicators show that the recovery continued through June

G3 Composite PMI Index, weighted by country shares in Singapore's NODX



Source: IHS Markit and EPG, MAS estimates

Activity in Asia ex-Japan should begin to recover from Q3 2020

In Asia ex-Japan, GDP fell by 16.6% q-o-q SAAR in Q1, with considerable differentiation across the region. China, the first economy to be affected by the virus, recorded a sharp 36.5% q-o-q SAAR contraction in Q1. The rest of Asia ex-Japan contracted by an average of 8.0% q-o-q SAAR as COVID-19 outbreaks, and the concomitant movement restrictions, were generally only applied towards the end of the quarter.

Governments across the region stepped up their containment measures as the virus spread across Asia ex-Japan in Q2. Workplace population mobility plunged by more than 40% in early April, following widespread business closures, while many also stayed away from retail and recreational spaces. Some countries in the region have had to re-impose movement restrictions due to a resurgence in the number of new infections (**Chart 1.11**). China, the first economy to emerge from lockdown, has recovered sooner than others in the region, with industrial production reaching 2019 levels by April (**Chart 1.12**).

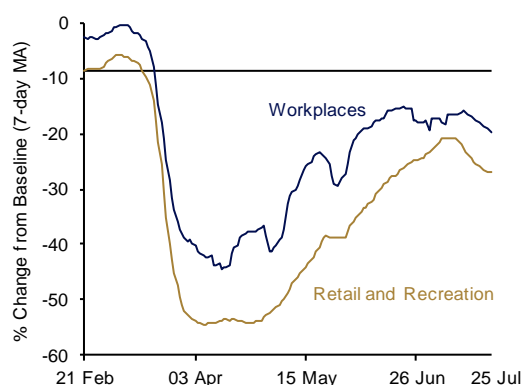
Overall, the speed with which the virus has been brought under control has been an important determinant of the pace of economic recovery. Malaysia and Vietnam joined China in registering a manufacturing PMI above '50' in June, reflecting their relative success in flattening the infections curve. PMI outturns for the rest of Asia ex-Japan remained in contractionary territory. The plunge in international trade and the near-total cessation of cross-border tourism has hit most of the region's open economies, although electronics trade has been a relative bright spot.

The Asia ex-Japan economies as a whole are expected to recover from Q3 as movement restrictions continue to ease, while government stimulus measures will provide additional support. Overall, GDP in Asia ex-Japan is forecast to shrink by 2.0% in 2020—less than the G3—before rebounding by 6.7% in 2021. Asia ex-Japan is projected to surpass its end-2019

GDP level in Q4 2020, aided by China's earlier recovery. The region is exposed to global downside risks from the path of COVID-19 and the possibility of renewed infections. Moreover, some Asia ex-Japan economies face constraints on their policy space to respond to further negative developments, owing to limitations on governments' financing flexibility. The region is also exposed to shifts in investor sentiments and the risk of renewed economically disruptive capital outflows. Tensions over trade and investment linkages among major economies provide additional uncertainty.

Chart 1.11 Mobility in workplaces and retail locations plunged as businesses closed but has since picked-up

Mobility Trends in Asia ex-Japan

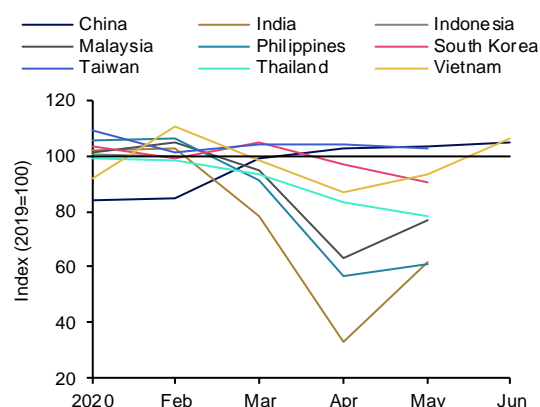


Source: Google Community Mobility Reports and EPG, MAS estimates

Note: China is not included in the Google Mobility Index due to a lack of data.

Chart 1.12 Industrial production remains below 2019 levels, except for China and Vietnam

Industrial Production in Asia ex-Japan (nominal, SA)



Source: Haver Analytics and EPG, MAS estimates

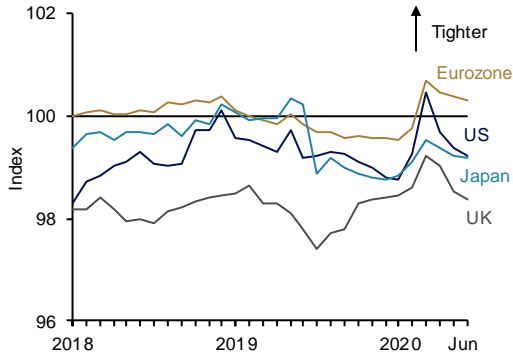
Financial stability risks have risen amid the weakening growth backdrop

Financial conditions in many countries and regions around the world tightened earlier this year with the outbreak of COVID-19. Emerging market economies including the ASEAN-4 saw portfolio outflows, which peaked in March. Financial conditions have since moderated with the stabilisation of economic activity in May and June (**Charts 1.13 and 1.14**). Portfolio outflows have also eased.

Current financial conditions are supportive of the macroeconomic environment, mitigating the risk of a liquidity crunch. However, the looser financial conditions come alongside already-high corporate debt levels in many countries. As cashflows would likely remain below pre-COVID levels with global economic activity staging an uneven and hesitant recovery, firms could borrow more to sustain their businesses leading to a further increase in overall corporate debt levels. This could further worsen credit quality especially if the economic downturn is prolonged and government support measures taper off. Rising corporate defaults could hamper banks' ability and willingness to lend and trigger a pullback in credit, leading to a renewed rush out of emerging market securities and into safe and liquid assets. A resurgence of outflows could depress exchange rates, tighten financial conditions and raise refinancing risks.

Chart 1.13 Financial conditions have largely moderated from the peak stresses earlier this year in the G3 and UK...

Financial Conditions Index

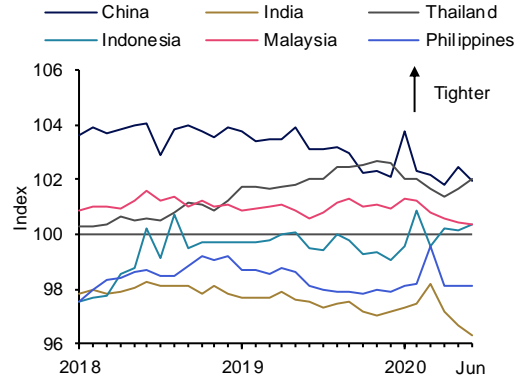


Source: Bloomberg and EPG, MAS estimates

Note: FCI values are not comparable on a cross-country basis due to differences in base years but are comparable for the same country over time.

Chart 1.14 ...as well as in many emerging market economies in Asia

Financial Conditions Index



Source: Bloomberg and EPG, MAS estimates

Note: FCI values are not comparable on a cross-country basis due to differences in base years but are comparable for the same country over time.

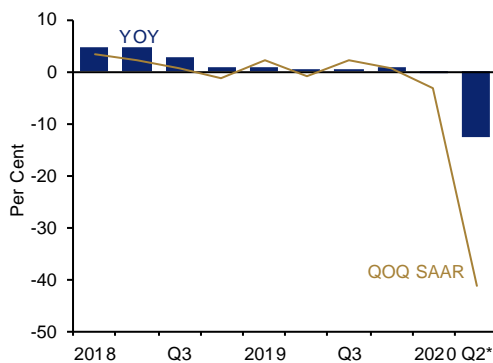
2. The Singapore Economy

Singapore has entered a recession, posting its most severe contraction in economic activity on record in Q2 2020

According to *Advance Estimates*, the Singapore economy registered its steepest contraction in history amid the COVID-19 pandemic, declining by 41.2% on a q-o-q SAAR basis, or 12.6% y-o-y, in Q2 2020. This brought the y-o-y growth rate for the first half of this year to -6.5% (**Chart 2.1**). While the downturn was evident across most industries, three groups of activity were at the epicentre of the impact from COVID-19: travel-related (comprising air transport, accommodation, arts, entertainment & recreation), consumer-facing domestic services (retail, food services and land transport) and construction. Each of these groups accounted for 4% of real GDP (2019 shares), thus the severest impact hit 12% of the Singapore economy. EPG's Economic Activity Index (EAI)⁷ showed that the travel-related sector, which bore the brunt in Q1, continued its precipitous fall in Q2. The domestic-oriented sector (includes consumer-facing domestic services and construction, among others) contracted sharply, reflecting the effects of the two-month circuit breaker in April and May, followed by the partial reopening of the economy in June (**Chart 2.2**). Meanwhile, the modern services and trade-related sectors were relatively less affected.

Chart 2.1 GDP contracted by 41.2% q-o-q SAAR (12.6% y-o-y) in Q2 2020, following the 3.3% decline in Q1

Singapore's GDP Growth

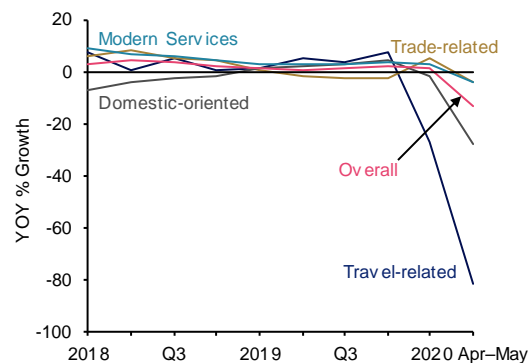


Source: DOS

* *Advance Estimates*

Chart 2.2 The domestic-oriented and travel-related sectors were more severely affected compared to trade-related and modern services

Economic Activity Index



Source: EPG, MAS estimates

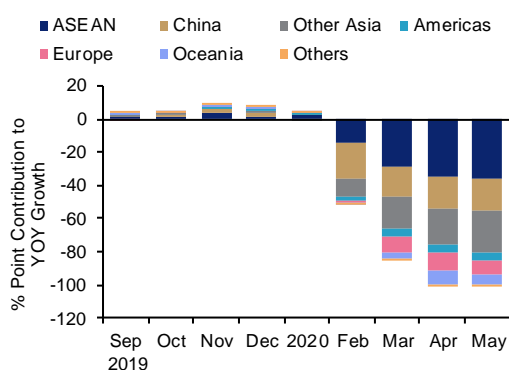
⁷ The EAI is a composite index that aggregates the performance of coincident high-frequency indicators across the major sectors of the Singapore economy.

With travel restrictions in place, the air transport, accommodation as well as arts, entertainment and recreation industries remained depressed in Q2

The travel-related sector stalled in Q2, with the closure of borders to all short-term visitors since 23 March. According to the latest available statistics from STB, visitor arrivals collapsed to a monthly average of 815 persons in Apr–May, from a monthly average of 1.6 million in 2019. The hotel occupancy rate averaged 49% over the same period, supported partly by corporate bookings to house foreign workers who were unable to return home (**Charts 2.3 and 2.4**).

Chart 2.3 Tourist arrivals plunged with travel restrictions remaining in place in Q2

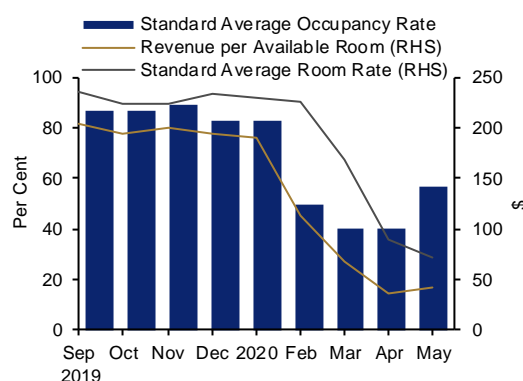
Monthly Visitor Arrivals



Source: STB

Chart 2.4 The sharp decline in visitor arrivals caused hotel occupancy to fall to about 50% in Apr–May

Hotel Occupancies



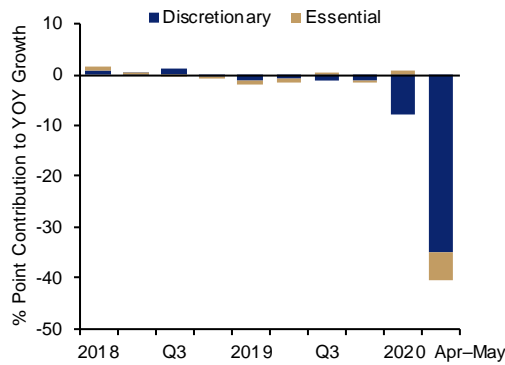
Source: STB

The domestic-oriented sector was severely affected in Q2, with the circuit breaker measures disrupting most activities

In the domestic-oriented sector, the retail and food & beverage (F&B) industries saw a sharp pullback in activity in Q2, with sales contracting by 47% and 51% y-o-y, respectively in Apr–May. With the closure of shopping outlets during the circuit breaker period, retail sales, particularly of discretionary goods, plummeted (**Chart 2.5**). Retailers of watches & jewellery, clothing & footwear, as well as department stores experienced steep sales declines of over 85% in Apr–May. Likewise, motor vehicle sales plunged by 81% with the closure of car showrooms and the suspension of COE bidding. In comparison, sales at supermarkets grew by 64%, as people stocked up on perishables to stay at home with the closure of workplaces, dine-in restaurants, entertainment outlets, and schools. In the F&B segment, sales tumbled as businesses were only permitted to provide for takeaways or deliveries. The pace of contraction was uneven across segments, with restaurants and food caterers seeing larger declines in turnover compared to fast food restaurants and cafes, food courts & other eating places. The fall in retail and F&B sales would have been even sharper if not for the substantial increase in online sales, as businesses affected by the circuit breaker adapted their business models (**Chart 2.6**).

Chart 2.5 Retail sales fell sharply during the circuit-breaker, particularly for discretionary spending

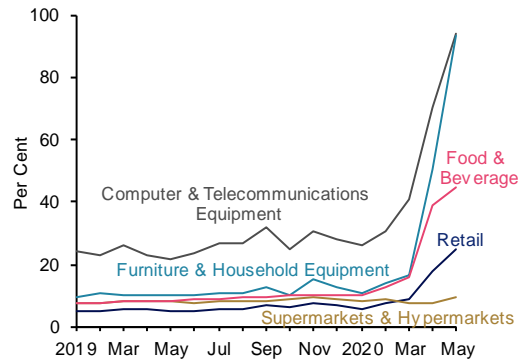
Growth in Retail Sales Volumes (Excluding Motor Vehicles)



Source: DOS and EPG, MAS estimates

Chart 2.6 The share of online sales increased markedly

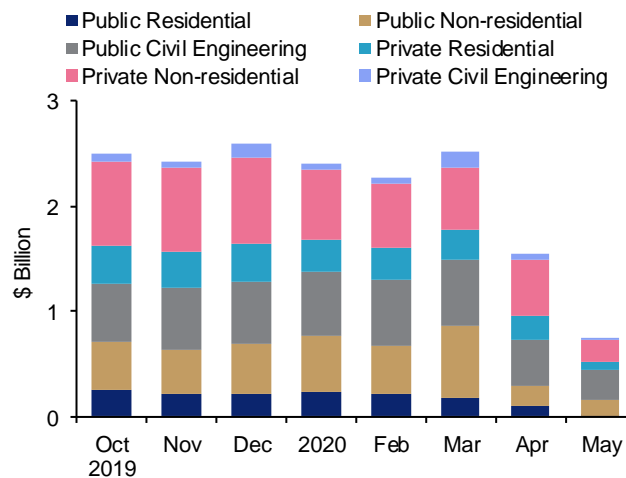
Share of Online Sales



Source: DOS

Chart 2.7 Certified payments eased considerably

Certified Payments in the Construction Sector



Source: BCA

The construction industry shrank by 55% y-o-y in Q2, with most building activities suspended amid the spike in infection cases among migrant workers staying in dormitories (**Chart 2.7**). Only some public infrastructure, emergency repairs and maintenance works were allowed to continue. As at mid-June, BCA has approved more than 300 projects to resume and is working closely with construction firms on another 250 projects to help them meet the COVID-Safe Restart requirements. Only around 10% of the sector's workforce had returned to work by June. In the real estate segment, the profit margins of landlords were squeezed in the wake of lower returns from tenants' depressed sales revenue, rental waivers provided to

tenants, and weakness in real estate transaction activity. At the same time, private residential property transactions fell 45% y-o-y in Q2, amid the prohibition of show flat viewings during the circuit breaker period.

Modern services were supported by firm growth in the finance & insurance and ICT sectors

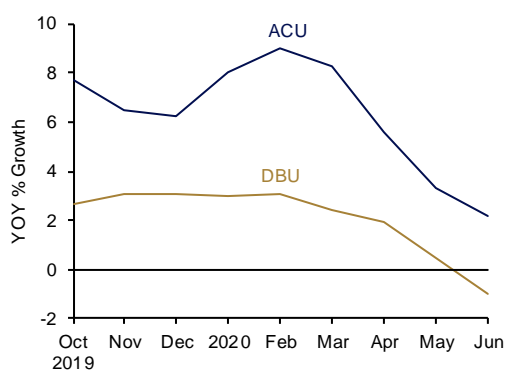
The severe contraction in the travel and construction industries impacted business services as well. For example, weak demand for aircraft and construction machinery affected the rental & leasing segment, while new contracts for architectural and engineering services were curbed. In addition, business consultancy and MICE-related⁸ activities were hampered by the travel bans.

However, the finance & insurance and ICT industries continued to support the growth of modern services in Q2. Although the former is likely to have seen an easing in growth in Q2 from the exceptionally strong performance in Q1, it has continued to buck the trend of declines in the rest of the economy. In particular, digital payments adoption accelerated, as countries in the region entered lockdown. As such, auxiliary activities in the financial sector—comprising mainly credit card network players—expanded steadily in Q2. Likewise, the insurance industry continued to benefit from strong demand for life insurance and reinsurance products, albeit at an attenuated rate relative to Q1. Meanwhile, in the banks segment, ACU loan growth remained positive at 2.2% in Q2 due to strong credit demand from Europe, even as DBU loan growth contracted slightly (**Chart 2.8**). Forex saw weakened outturns in Q2 as trading volumes fell to more normal levels, following the surge in March, which was driven by heightened volatility in financial markets (**Chart 2.9**).

In the ICT sector, the IT & information services segment saw firm expansion, due to steady demand for e-commerce, work-from-home and digital entertainment solutions during the circuit breaker period. However, travel and movement restrictions had led to significant reductions in roaming and prepaid revenues, whilst slowing economic growth had delayed business spending on telecommunication equipment.

Chart 2.8 Non-bank loan growth slid further in Q2

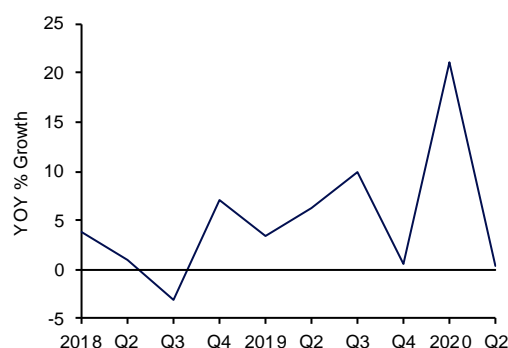
ACU & DBU Non-bank Loan Growth



Source: MAS

Chart 2.9 Forex saw weakened outturns in Q2

Forex Turnover



Source: MAS

⁸ MICE refers to meetings, incentives, conferencing and exhibitions.

Some bright spots in the trade-related industries

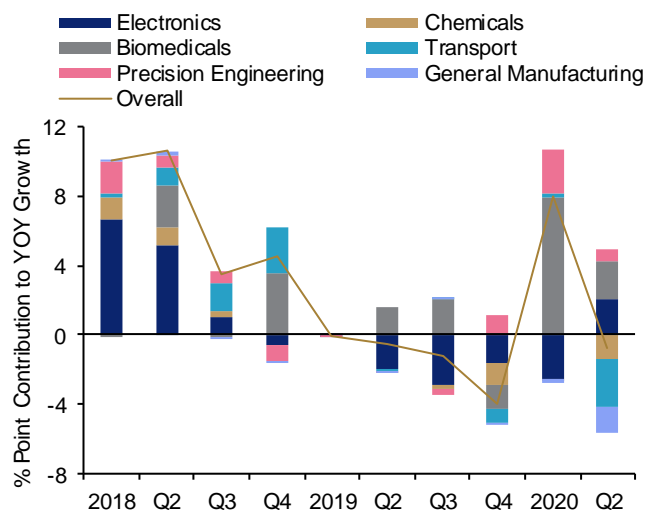
The trade-related sector generally held up in Q2 2020, although the performance was mixed across industries. Several industries were severely affected by the curtailment of external demand and fall in global trade. For instance, the volume of sea cargo handled at Singapore's ports fell by 14% y-o-y, weighed down by both containerised and oil bulk cargo. Similarly, real exports (including both oil and non-oil) fell by 7.3%.

Meanwhile, the Index of Industrial Production (IIP) saw a relatively mild decline of 0.7% y-o-y in Q2, reversing from the 7.9% gain in Q1 (**Chart 2.10**). The sector was supported by the stellar performance of the pharmaceuticals segment (part of biomedical), which grew 15%. There was a surge in the production of active pharmaceutical ingredients and biological products, some of which could have fed into the rising global demand for respiratory drugs. The electronics industry also performed relatively well, largely due to the semiconductor segment. While semiconductor output (IIP) declined for the most part in 2019 and early 2020, it increased by 9.6% y-o-y in Q2. Domestic exports of integrated circuits have risen in recent months after a protracted period of decline.

The performance of the rest of the manufacturing sector excluding the biomedical and electronics industries was generally weak, declining by 12% y-o-y in Q2. In particular, the transport engineering and general manufacturing industries contracted sharply, by 34% and 20% respectively. Both industries were likely to have been affected by circuit breaker measures, which constrained their operations. The collapse in global air travel also had a large impact on the aerospace segment (part of transport engineering) as demand for repair and maintenance work declined, resulting in a slump of 29%.

Chart 2.10 Manufacturing IIP declined by 0.7% in Q2 2020

Index of Industrial Production (2019=100)



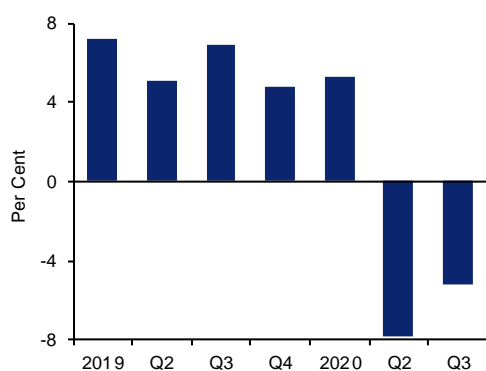
Source: EDB

While the domestic economy is on track for a sequential uptick in Q3, the recovery ahead is expected to be uneven across sectors

With the progressive re-start of activity since the end of the circuit breaker measures, the domestic economy is on track for a sequential growth recovery in the second half of this year. Nevertheless, the latest Business Optimism survey by the Singapore Commercial Credit Bureau (SCCB) points to business sentiment among local firms remaining downbeat in Q3, albeit slightly improved from the previous quarter (**Chart 2.11**). Among the six sub-indicators tracked, four of them, namely, sales volumes, new orders, inventory and employment, saw improvement but remained in contractionary zone (**Chart 2.12**). The slight uplift largely reflects the easing of supply-side constraints, even as weakness in demand lingers. The level of economic activity and utilisation rates in factor markets are expected to stay below pre-crisis norms, with an uneven recovery across sectors. Many businesses, especially the travel-related and consumer-facing industries, are expected to be still operating well below capacity, amid border closures, necessary social distancing and virus fears. Recovery in externally-oriented sectors such as manufacturing and wholesale trade will depend on the strength of the upturn in global demand. Even as the immediate supply disruption to activity fades, the shock will continue to propagate through the demand side of the economy, as firms and households adjust to income loss and increased uncertainty by holding back discretionary spending and investment.

Chart 2.11 Business sentiments remains downbeat, but has improved from the preceding quarter

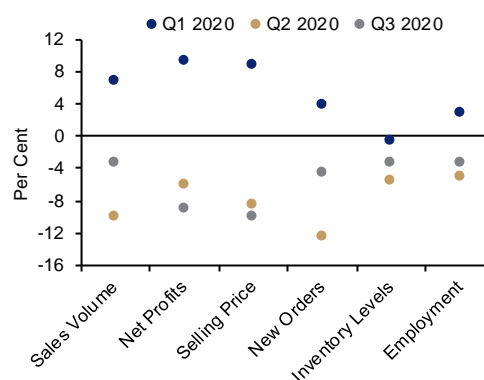
Business Optimism Index



Source: SCCB, Dun & Bradstreet Singapore

Chart 2.12 Four out of six sub-indicators saw improvement but remained in contractionary zone

Business Optimism Index by Sub-Indicators



Source: SCCB, Dun & Bradstreet Singapore

Developments in the global electronics industry would be a key determinant of prospects for Singapore's trade-related sector

In the coming months, the performance of Singapore's trade-related industries will be contingent on the revival of external demand. The prospects for domestic electronics industry will mirror developments in the global industry. While the anticipated waves of tech upgrades to 5G-enabled devices by consumers and businesses should provide some uplift, the adoption of new devices will require a gestation period, which is likely to be prolonged amid

the pandemic. The strength of global chip sales will likely be capped by soft business and consumer sentiment. Accordingly, Singapore's electronics industry could benefit from the ongoing upgrades in technology standards, but cyclical headwinds would cap the extent of growth for the rest of the year.

The modern services sector could moderate amid the pullback in underlying business activity

The finance & insurance sector is expected to moderate in H2 2020, due to weaker credit demand and lower interest margins. However, the sector is not likely to contract and should still record creditable growth for the year as a whole. In the banking segment, credit growth is expected to slow in the latter half of the year. The exceptionally strong demand for single premium life insurance coverage in H1 should also subside in H2, with the ending of some new product launches and promotions. Nonetheless, other auxiliary activities are likely to be resilient, as digital payment methods become more entrenched.

Meanwhile, the national-wide push for digitalisation has been given a boost in the wake of COVID-19 and this presents opportunities for the ICT sector. A significant share of economic activity has shifted online, such as essential and discretionary shopping, and even some MICE segments, and these are set to continue at least to some extent even after the pandemic is over. IT & information services stand to gain most in this new normal.

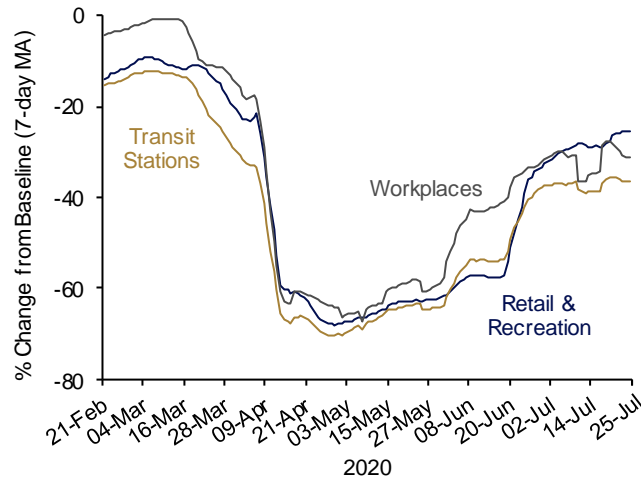
As the Singapore economy moves towards greater normalisation with easing of social distancing and mobility limitations, spending on business services should begin to gradually recover. Yet, the pace of recovery will likely vary among segments. Growth in the rental & leasing, architectural & engineering, and other administrative & support segments that are most dependent on the travel and construction industries are expected to remain subdued until the eventual lifting of border restrictions and resumption of construction projects, respectively. In comparison, segments such as HQ & business representative offices are more likely to return to normalcy earlier.

Continued safe distancing measures will hold back some of the pickup in the consumer-facing industries

Data from Google location notification services showed visible improvement in domestic activity as the economy entered phase two of reopening. As at late July, mobility levels at retail & recreational places, bus/train stations and workplaces have approximately doubled compared to their respective troughs (**Chart 2.13**). Notwithstanding the recovery, these activities are still below pre-pandemic levels. It remains unclear whether the initial rebound from pent-up consumer demand can be sustained, as safe distancing measures put a lid on operating capacity, visitor arrivals stay very low and heightened economic uncertainty leads to an increase in precautionary saving by households.

Chart 2.13 Mobility levels have rebounded as the economy gradually reopens, but activities remain below pre-COVID levels.

Population Mobility Index



Source: Google Community Mobility Report, Singapore

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

Activity in the construction sector will remain muted, in part constrained by the stringent requirements for work resumption

The outlook of the construction industry remains weak and its pace of recovery is expected to be comparatively slower than the retail and F&B sectors. With the exit from the circuit breaker, BCA has allowed more critical and time-sensitive infrastructure construction projects, and previously suspended residential renovation works to resume. As at end-July, more than 80% of the workers living in dormitories have been tested for the virus and the government is expected to complete testing for all dormitories by the first week of August, with the exception of blocks that are being used as quarantine facilities. Nonetheless, work resumption has been gradual, to minimise the risk of new outbreaks of infection among construction workers. Inevitably, some projects have been postponed due to the fallout from the pandemic. For instance, the construction of Changi Airport Terminal 5 will be paused for at least two years amid the uncertainty on how the aviation sector will emerge from the crisis. Plans to expand the rail network by more than 50% will also be delayed.

Travel-related activities will stay depressed until a vaccine is developed

The travel-related sector will probably be amongst the last to recover, as it will largely depend on the transition to phase three of the reopening, where border restrictions for tourism are expected to be gradually eased. Even as green lanes and travel bubbles are progressively put in place, the revival of cross border travel will be slow in the absence of an effective vaccine, due to recurrent waves of infection and onerous measures to ensure safe travel. Despite the opening of the Singapore-China green lane and restarting of transit flights by Singapore carriers, aircraft operating capacity remains extremely low. Additionally, the operating capacities of tourist attractions permitted to resume operations progressively from

July have been capped at 25%. The opening of hotels for staycations and resumption of essential business travel are expected to provide some support to the accommodation sector.

The economic outlook remains uncertain and subject to further downside risks

All in, the Singapore economy will experience a full-year contraction in 2020, with GDP growth projected at -7 to -4%. COVID-19 continues to present a high degree of uncertainty to the economic outlook, with the severity and duration of the recession depending on the course taken by the pandemic and the ability of economies to reopen without triggering fresh outbreaks. Downside risks include (i) a longer-than-expected global outbreak resulting in persistent softness in external final demand, with negative spillovers to the trade-related and modern services sectors in Singapore; and (ii) a rise in community infections in Singapore leading to some form of shutdown that would deal another blow to the domestic-oriented sectors.

3. Labour Market and Inflation

Employment contracted sharply in H1 2020

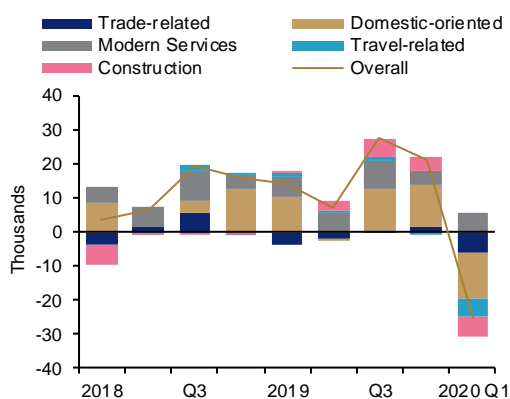
Reflecting the early effects of COVID-19 on the labour market, overall employment fell by 0.7% (-25,200) in Q1 2020, the largest q-o-q growth decline since Q2 2003. Foreigners bore the brunt of the job losses in Q1, while local employment contracted at a more modest pace. Across sectors, the domestic-oriented sector⁹ registered the largest employment contraction (**Chart 3.1**), led by job losses in food & beverage services, retail trade and administrative & support services. Headcount was also cut significantly in the travel-related and construction sectors. In comparison, employment in modern services continued to expand, as financial and professional services firms continued to hire.

However, preliminary estimates show that overall employment contracted further by 131,500 in Q2, amid the plunge in economic activity during the circuit breaker. Job losses were centred in the services sector, although employment also contracted at a faster pace in manufacturing and construction. Overall employment has declined by a cumulative 156,700, or 4.1% since end 2019.

In Q1 2020, many workers that remained employed also saw their working hours reduced considerably. Notably, the number of workers on short-work weeks or who were temporarily laid-off rose in Q1, while average overtime hours worked dipped (**Chart 3.2**)¹⁰.

Chart 3.1 Employment fell steeply in Q1 across most sectors, except modern services

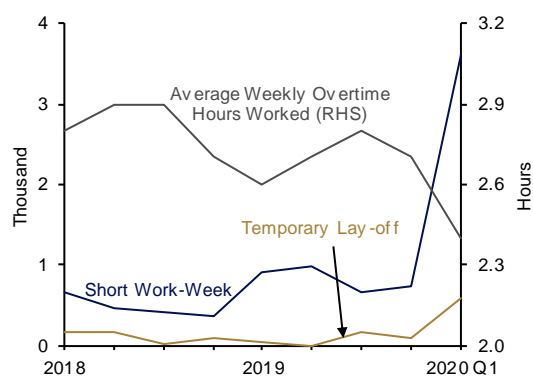
Q-o-q employment change



Source: MOM and EPG, MAS estimates

Chart 3.2 Workers that stayed employed experienced a drop in hours worked

Indicators of intensive margins of labour supply



Source: MOM

⁹ 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. The “modern services” sector comprises ICT, financial & insurance and professional services. The “trade-related” sector consists of manufacturing, wholesale trade and water and other transport industries. The “travel-related” sector is made up of air transport, accommodation as well as arts, entertainment & recreation industries.

¹⁰ Short work-week refers to employees whose normal number of working days per week has been temporarily reduced due to lack of work, at any time during the period. Temporary lay-offs refer to employees whose services are suspended temporarily due to lack of work, at any time during the period and they may or may not have been paid during this period.

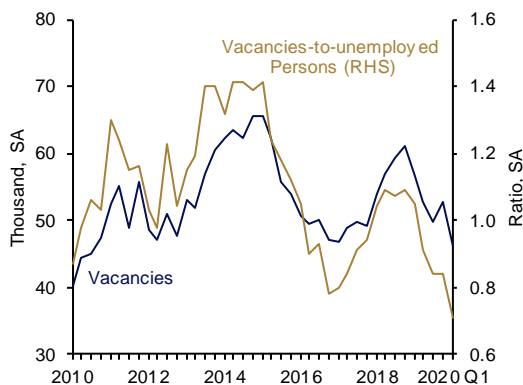
Labour market slack grew

In Q1, the seasonally-adjusted overall and resident unemployment rate both edged up by 0.1% point to 2.4% and 3.3%, from Q4 2019, respectively. This reflected both a fall in job vacancies and a rise in job separations. Total retrenchments came in higher at 3,200 in Q1 2020, compared to the 2,700 in Q4 last year. Meanwhile, the number of vacancies fell by 6,400 to 46,300 in Q1, bringing the ratio of vacancies to unemployed to 0.71, the lowest in a decade (**Chart 3.3**). Preliminary estimates show that retrenchments further rose to 6,700 in Q2. In tandem, both seasonally-adjusted overall and resident unemployment rates also rose to 2.9% and 3.9%, respectively.

Firms became more cautious in their hiring amid the significant decline in economic activity and elevated uncertainty. Private sector surveys of business expectations indicate that hiring intentions declined in Q2, and continued to be subdued in Q3. For instance, the sub-index for employment in the Singapore Commercial Credit Bureau's (SCCB) Business Optimism Index, was negative in both Q2 and Q3, suggesting that the hiring outlook remains downbeat (**Chart 3.4**).

Chart 3.3 Various indicators point to widening slack in the labour market

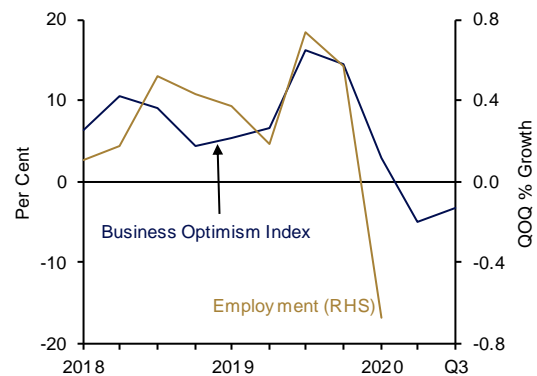
Measures of labour market slack



Source: MOM

Chart 3.4 Firms appear more cautious in hiring

Business Optimism Index for Employment and q-o-q employment change



Source: SCCB, Dun & Bradstreet Singapore and MOM

The government support measures will cushion some of the impact of COVID-19 on employment

Government measures such as the Jobs Support Scheme (JSS) have helped firms to retain their local workers. For the rest of 2020, in addition to further JSS payouts, the SGUnited Jobs and Skills Package will provide an important boost to hiring. However, local employment is still expected to fall significantly for the year as whole, leading to elevated resident unemployment rates for the rest of the year.

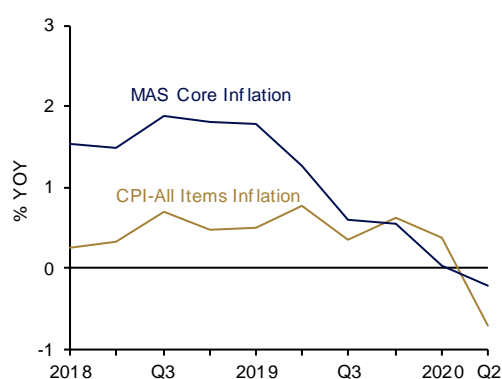
While resident wages rose by 2.4% y-o-y in Q1 2020, larger than the 0.5% in the preceding quarter, this was driven by the community, social & personal services (CSP) and financial services sectors, with wage growth easing in most other sectors of the economy. Overall wages are likely to fall as labour market conditions remain weak over 2020.

Disinflationary pressures have broadened in recent months

The disinflationary effects of COVID-19 intensified in the second quarter, reflecting weaker demand and reduced opportunities to spend during the circuit breaker. Government measures to mitigate the economic impact of COVID-19 on households also lowered inflation. MAS Core Inflation eased to -0.2% y-o-y in Q2 from 0% in Q1, while headline inflation declined sharply to -0.7% from 0.4% over the same period (**Chart 3.5**). Inflation fell in most broad CPI categories in Q2 compared to Q1 (**Chart 3.6**).

Chart 3.5 Both core and headline inflation turned negative in Q2 2020

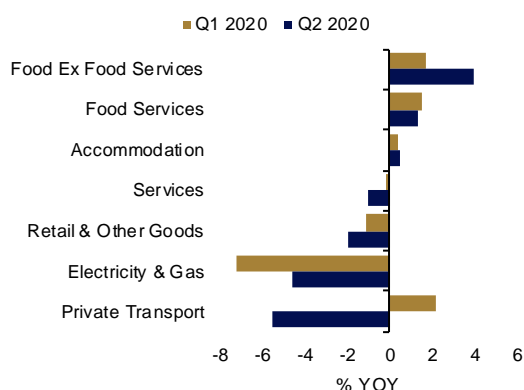
MAS Core Inflation and CPI-All Items inflation



Source: DOS and MAS

Chart 3.6 Inflation fell in most broad CPI categories in Q2 compared to Q1

Inflation for broad CPI categories



Source: DOS

The weaker labour market and reduced opportunities to spend under the circuit breaker dampened inflation across several CPI categories

Prices of travel-related services¹¹ extended their declines amid the collapse in international travel, contributing significantly to the fall in core inflation in Q2. The limited availability of observable prices owing to restrictions on international travel, however, meant that a sizeable share of data points in this category had to be imputed¹².

At the same time, the abrupt pullback in retail expenditure associated with precautionary behaviour and tightened social distancing measures saw retail inflation fall deeper into negative territory in Q2. The cost of retail goods fell by a steeper 1.9% y-o-y in Q2 compared to the 1.1% drop in Q1, as prices fell sharply for a broad swathe of retail products (**Chart 3.7**). Discretionary goods like apparel and personal effects, in particular, experienced steep price declines.

Weaker demand for prepared meals during the circuit breaker similarly put significant downward pressure on food services inflation. On a year-on-year basis, overall food services

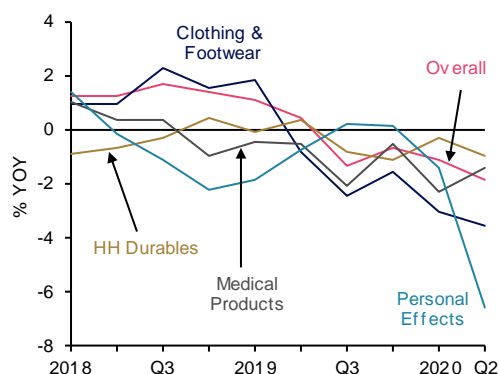
¹¹ Travel-related services comprise air and sea fares, coach fares for cross-border land travel and other expenses related to leisure travel (e.g., package tours).

¹² Due to international measures to contain the COVID-19 pandemic, the prices of holiday expenses, airfares and coach fares have not been available since April 2020. Hence, changes in the prices of these components were imputed using the overall change in the CPI-All Items, in line with international guidelines. For more details, please refer to the Technical Note in the Department of Statistics' release titled "Singapore Consumer Price Index for June 2020".

inflation eased to 1.4% in Q2 from 1.6% in Q1. On a sequential basis, the pace of increase in food services prices slowed markedly to 1.1% q-o-q SAAR in Q2, down sharply from 2.1% in Q1 (**Chart 3.8**). While price increases of restaurant meals had begun to ease in Q1 on a sequential basis, inflation of hawker and fast food meals fell only in Q2 when the circuit breaker began.

Chart 3.7 Inflation for most retail goods declined significantly

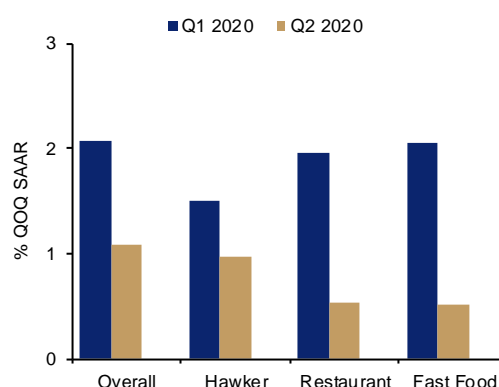
Inflation for selected retail goods



Source: DOS

Chart 3.8 Price increases for food services slowed markedly on a sequential basis

Price changes for components of food services CPI



Source: DOS

Significantly lower commuting needs during the circuit breaker contributed to the downward adjustment in transport costs in Q2. The pace of increase in public transport costs moderated to 2.5% y-o-y in Q2, from 3.7% in Q1, as point-to-point transport services (taxis and private-hire cars) inflation fell sharply from -0.9% y-o-y in Q1 to -6.8% in Q2. Private transport costs, excluding petrol, fell by 4.6% y-o-y in Q2 after recording a 2.0% increase in the preceding quarter. New car prices, in particular, fell as demand from both households and vehicle rental operators declined. The suspension of Electronic Road Pricing (ERP) charges, amid reduced traffic volumes, further lowered private transport costs.

The weaker hiring outlook and job losses of foreigners led to reduced demand for housing services in the first half of the year. Reflecting the fall in leasing demand, market rentals for non-landed private and public housing declined in Q2 (**Chart 3.9**). Notably, the sequential rate of increase in accommodation costs, which tend to respond to movements in housing rentals with a lag, slowed in Q2 even though accommodation inflation continued to rise on a year-on-year basis to 0.5% in Q2 from 0.4% in Q1.

Government measures further reduced education and healthcare inflation

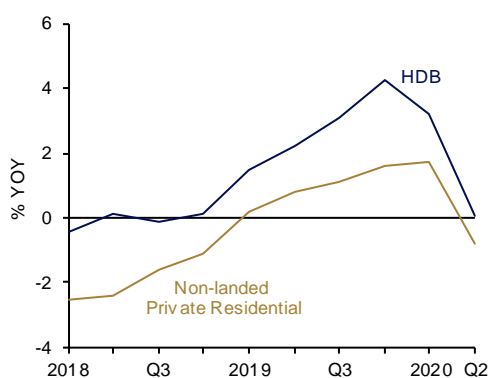
Education and healthcare services costs recorded further y-o-y declines of 0.6% and 1.8% in Q2, respectively. These largely reflected earlier government measures to reduce the cost of living for households and subsidies for outpatient healthcare associated with the COVID-19 response. The freeze on government fees and charges announced in the Resilience Budget added to the dampening effects of government measures on inflation. Increases in tuition fees at polytechnics and Institutes of Technical Education were put on hold, while local autonomous universities deferred tuition fee increases. Within healthcare services, public hospital services inflation also declined in Q2.

Non-cooked food prices rose amid heightened demand

Non-cooked food was the only major component of the CPI to register higher inflation in Q2. Supply disruptions, higher freight costs and heightened demand during the circuit breaker drove non-cooked food inflation to 4% y-o-y in Q2 from 1.7% in Q1. This increase in non-cooked food inflation mirrored price trends in the major advanced economies (**Chart 3.10**). In line with experiences in other economies, domestic retailers likely suspended discounts on food items amid heightened demand as consumer spending shifted significantly towards non-cooked food and away from prepared meals during the circuit breaker. Higher labour and logistics costs amid the surge in demand could also have prompted retailers to pass on cost increases to consumers.

Chart 3.9 Market rentals weaken amid lower leasing demand

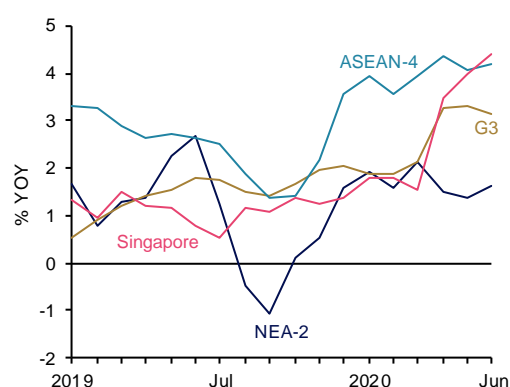
SRX rental indices for HDB and non-landed private residential properties



Source: SRX

Chart 3.10 Upward pressure on food prices were seen in most economies

Non-cooked food inflation



Source: Haver Analytics and EPG, MAS estimates

Note: Simple averages of inflation rates within country groupings. G3 refers to Eurozone, Japan and US, while NEA-2 comprises Korea and Taiwan. ASEAN-4 consists of Malaysia, Thailand, Vietnam and Philippines.

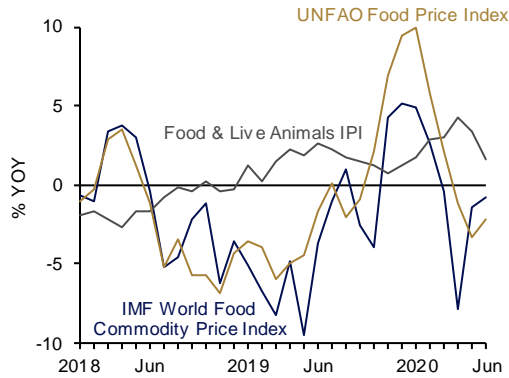
Inflation is likely to remain subdued for the rest of the year

In the quarters ahead, external sources of inflation are likely to remain benign amid weak global demand conditions. In particular, international food commodity prices have broadly declined since the start of the year (**Chart 3.11**), although continuing supply chain disruptions could keep freight costs high. Non-oil import price inflation eased significantly in Q2 from the previous quarter, in part reflecting lower imported price inflation for food.

In comparison, global oil prices rose to average US\$41 in June from its lows of around US\$20 in April. Prices were supported by the pickup in mobility and economic activity in countries that exited lockdowns, as well as the cutback in supply from major oil-exporting countries. However, global oil prices remain well below levels of US\$64 at the start of the year, and further increases should be capped by the overhang in oil inventories and fragile demand prospects. In the near term, lower oil prices will pass through to electricity and gas tariffs in Q3 (**Chart 3.12**).

Chart 3.11 International food commodity prices have declined since the start of 2020

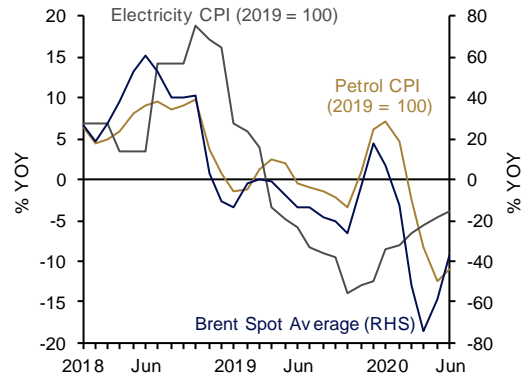
Food & Live Animals IPI and International Food Commodity Price Indices



Source: DOS, IMF and UN Food and Agriculture Organization (FAO)

Chart 3.12 Recovery in global oil prices remained weak amid the worldwide economic crisis

Brent spot average prices and CPI for Petrol and Electricity



Source: US Energy Information Administration and DOS

On the domestic front, subdued economic sentiment and weak labour market conditions will keep private consumption muted, thereby capping price increases for discretionary goods and services. Cost pressures are also likely to remain low as the degree of spare capacity in the economy grows. Inflation is thus expected to remain subdued.

Both MAS Core Inflation and CPI-All Items inflation are forecast to average between -1% and 0% in 2020.

4. Macroeconomic Policy

Timely and concerted support mitigated the economic impact of the COVID-19 pandemic

In response to the unprecedented crisis precipitated by the COVID-19 pandemic, the government and MAS swiftly introduced an array of fiscal, monetary and financial measures to minimise the fallout on the economy. These measures largely focused on preserving firms' capabilities and employment for workers through the temporary stoppage in economic activity. It aimed to safeguard the productive capacity of the economy and protect people's livelihoods, which in turn would ensure that spending, incomes and output could bounce back once the virus was contained.

The fiscal support was unprecedented and required a drawdown from Past Reserves

The centrepiece of Singapore's pandemic response were the four Budgets (Unity, Resilience, Solidarity and Fortitude) unveiled by the government in quick succession over a span of four months from February to May. Together, they added up to \$92.9 billion (19.2% of nominal GDP), of which \$70.9 billion represented direct fiscal injections into the economy, while the remaining \$22 billion was earmarked as capital for loan guarantees.

The overall budget deficit for FY2020 is estimated to be \$74.3 billion (15.4% of GDP), the largest in Singapore's history. As this deficit exceeds the available fiscal resources from the current term of government, the government obtained the President's approval to draw a total of \$52 billion from the Past Reserves to finance parts of the Resilience, Solidarity and Fortitude Budget. In all, MAS estimates that the combined fiscal injection from the four budgets would impart an offsetting impulse of +5.5% of GDP (in level terms) to the economy this year.

The main aim of fiscal policy was to save jobs and protect livelihoods

From an expenditure perspective, fiscal support mainly took the form of wage subsidies for local employees. Under the Jobs Support Scheme (JSS), businesses in the hardest-hit aviation, tourism and hospitality sectors would receive 75% wage support for local workers up to a wage cap of \$4,600 a month, for a total of ten months.¹³ The construction sector would receive 75% support for a more limited period of five months from April to August, and 25% for the other five months. Apart from enhanced support of 75% during the circuit breaker, the F&B, retail trade, arts & entertainment and land transport sectors would be provided with 50% wage support for eight months, while all other sectors of the economy would receive 25%.

During the circuit breaker months of April and May, firms also received foreign worker levy waivers and rebates. Other measures that sought to relieve cashflow pressures for businesses included property and corporate income tax rebates, rental waivers for tenants in

¹³ The JSS payouts are computed based on wages paid in Oct–Dec 2019 and Feb–Aug 2020. Employers will receive the payments over four tranches, in April, May, July and October 2020.

public properties and cash grants for SME tenants. A one-year freeze on all government fees and charges was also announced.

The government also provided targeted cash transfers and income support to households and individuals. Transfers included one-off cash payments of up to \$1,200 for lower-income adult Singaporeans, \$400 worth of grocery vouchers in 2020–21 for needy Singaporeans and additional GST Voucher–U-Save payments. The government also extended benefits to self-employed persons and lower- to middle-income workers who had been retrenched or had their incomes significantly affected by the pandemic. The Self-Employed Person Income Relief Scheme (SIRS) offered eligible self-employed persons with lesser means and lack of family support up to \$1,000 per month for nine months. In addition, the COVID-19 Support Grant provided \$800 a month to eligible recipients for a duration of three months, conditional on recipients actively participating in job search or attending a WSG or e2i training programme.

Measures were put in place to ensure that viable businesses, particularly SMEs, were able to access credit

In addition to cash support for firms, the government sought to ensure that businesses, particularly SMEs, had continued access to affordable credit. The government therefore enhanced and expanded Enterprise Singapore’s (ESG) financing schemes. Specifically, a new Temporary Bridging Loan Programme was introduced and the government’s risk share for the SME Working Capital Loan under the Enterprise Financing Scheme was raised to 90%. As a complement to the government’s initiatives, MAS established a new SGD Facility to provide near zero-cost funding to financial institutions extending credit under these ESG loan schemes. This brought lending rates in the schemes down to around 2–3% p.a., compared to 6% or more in the market. From March to June, over 10,600 companies took up loans amounting to about \$9.4 billion under the ESG loan schemes.

MAS also provided financial institutions with temporary regulatory waivers to strengthen their willingness and ability to lend. These included allowing banks to recognise 100% of regulatory loss allowance reserves as Tier 2 capital and reducing from 50% to 25% the amount of stable funding that banks had to maintain on loans to individuals and businesses maturing in less than six months. Banks were also allowed to defer non-urgent industry projects to focus on supporting their customers through the crisis.

Together with the financial industry, MAS introduced credit and insurance relief measures for businesses and households

To further ease cashflow pressures on SMEs and individuals, MAS collaborated with the financial industry to roll out measures aimed at reducing the burden of meeting financial obligations. These allowed for deferment or greater flexibility in paying off loans and insurance premiums. For instance, SMEs with good credit standing could defer principal repayments on secured loans until the end of 2020 and pay their general insurance premiums in instalments while retaining full coverage. Likewise, individuals were able to defer principal repayment and interest payments for a range of loans, including mortgages for residential properties, commercial and industrial properties, motor vehicle loans and student loans, as well as their life and health insurance premiums. Those who suffered a loss of 25% or more of their monthly income after 1 February would also be eligible to convert their outstanding credit card balances to lower-interest term loans.

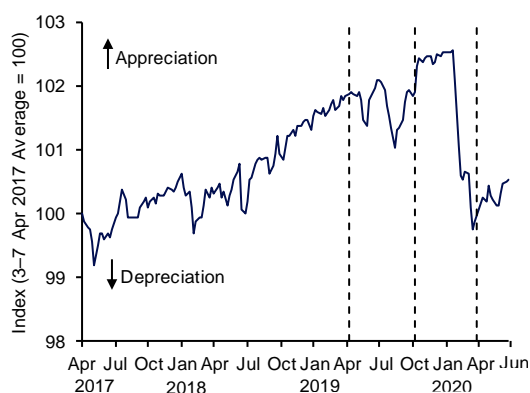
These schemes have assisted a substantial number of SMEs and individuals with their financial commitments. Thus far, banks have approved the deferment of principal and/or interest payment for nearly 34,000 mortgages, as well as 2,100 renovation and education loans. More than 6,200 outstanding card and unsecured debt obligations have also been converted to term loans at lower interest rates, while over 3,200 motor vehicle loans and hire-purchase agreements were granted some form of repayment relief. More than 5,300 SME secured loans now enjoy repayment deferments. Banks also went beyond the relief package and allowed some of their SME customers to defer repayment on their unsecured loans.

MAS eased monetary policy and ensured sufficient liquidity in the financial system

In Q1 2020, as prospects for the Singapore economy weakened, the S\$NEER depreciated within the policy band. At its April policy review, MAS eased monetary policy by setting the rate of appreciation of the S\$NEER policy band to zero per cent, starting from the then-prevailing lower level of the nominal trade-weighted exchange rate. This monetary policy move was assessed to forestall even sharper falls in output, wages and prices, even as fiscal policy provided the main countercyclical impulse. Stability in the S\$NEER going forward would also help to underpin confidence in the Singapore economy amid the COVID-19 crisis (**Chart 4.1**).

Chart 4.1 The slope of the policy band was set to 0% at the then-prevailing level of the S\$NEER

S\$NEER, weekly average

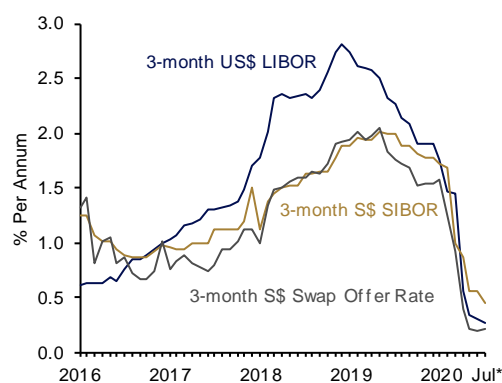


Source: EPG, MAS estimates

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

Chart 4.2 Domestic interest rates has fallen further since end-March

US\$ and S\$ interest rates, end of month



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

* As at 27 July 2020.

MAS also maintained a higher level of Singapore dollar liquidity in the domestic financial system from March through its money market operations. This ensured that funding conditions remained conducive for banks to extend lending. Ample liquidity, alongside a stable path for the nominal exchange rate, has helped to keep interest rates in Singapore low, in line with US\$ rates. The 3-month S\$ SIBOR and 3-month S\$ Swap Offer Rate has moderated to 0.44% and 0.21% respectively, as of late July, from around 1.0% in end-March (**Chart 4.2**). During the global US\$ liquidity crunch in late March and early April, MAS also stepped up its provision of US\$ liquidity to support the funding needs of businesses in Singapore and the region. Notably, MAS launched a new US\$60 billion US dollar Facility in March, on the back of

the swap arrangement with the US Federal Reserve. To date, the facility has provided approximately US\$22 billion to banks.

Fiscal, monetary and financial measures, as well as active labour market policies, will support the economic recovery

The combined effects of these mutually reinforcing macroeconomic and financial policies have likely helped avert premature destruction of viable firms and jobs, and thus productive capacity in the economy. By aiding businesses and households through a sudden, albeit temporary, stoppage in revenue and income streams, MAS and the government's slew of cashflow and credit measures should facilitate a reasonable recovery to gain traction in the coming quarters. Singapore has gradually reopened, in line with most other economies, and much economic activity has resumed.

However, a second major wave of infections, either domestically or abroad, represents a considerable risk to the outlook, especially if it leads to another round of full-scale lockdowns. Moreover, spare capacity in the Singapore economy will continue to build, notwithstanding the support measures, as demand remains weak in certain sectors of the economy.

To this end, the SGUnited Jobs and Skills package will play an important role in supporting labour market outcomes. The government has committed to creating more than 40,000 job opportunities in the public and private sector, 25,000 traineeships for fresh graduates and mid-career jobseekers, as well as training opportunities for up to 30,000 individuals. In addition, the government has provided hiring incentives to firms that employ locals who have gone through the traineeship and training schemes. These measures should significantly mitigate the rise in resident unemployment, while facilitating the shift into new activities and jobs that may have higher growth potential post-COVID.

Selected Indicators

GENERAL INDICATORS, 2019			
Land Area (Sq km)	725.1	Literacy Rate* (%)	97.5
Total Population ('000)	5,703.6	Real Per Capita GDP (US\$)	58,862
Labour Force ('000)	3,740.8	Gross National Savings (% of GNI)	46.1
Resident Labour Force Participation Rate (%)	68.0		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2019		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2019	
Manufacturing	20.9	Private Consumption	36.4
Wholesale & Retail Trade	17.3	Private Gross Fixed Capital Formation	19.0
Business Services	14.8	Public Consumption	10.4
Finance & Insurance	13.9	Public Gross Fixed Capital Formation	4.4
Transportation & Storage	6.7	Increase in Stocks	1.7
Construction	3.7	Net Exports of Goods & Services	28.2
Information & Communications	4.3		
Accommodation & Food Services	2.1		

MAJOR EXPORT DESTINATIONS (% SHARE), 2019		MAJOR ORIGINS OF IMPORTS (% SHARE), 2019	
Total Exports (S\$ Billion)	532.5	Total Imports (S\$ Billion)	489.7
China	13.2	China	13.7
Hong Kong	11.4	US	12.2
Malaysia	10.5	Malaysia	11.6
US	8.5	Taiwan	9.0
Indonesia	7.0	Japan	5.4
ASEAN	28.7	ASEAN	21.8
NEA-3 (Hong Kong, Korea and Taiwan)	19.5	NEA-3 (Hong Kong, Korea and Taiwan)	13.8
EU	7.7	EU	10.6

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2019		MAJOR IMPORTS BY COMMODITY (% SHARE), 2019	
Domestic Exports (S\$ Billion)	251.6	Total Imports (S\$ Billion)	489.7
Mineral Fuels	34.3	Electronics	27.7
Chemicals	19.0	Mineral Fuels	21.0
Electronics	14.6	Machinery & Transport Equipment (ex. Electronics)	20.7
Machinery & Transport Equipment (ex. Electronics)	10.2	Chemicals	8.3
Manufactured Articles	9.2	Manufactured Articles	8.3
Food and Live Animals	4.3	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	2018	2019	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	May 20	Jun 20
GDP at current prices (S\$ bil)	503.4	507.6	125.3	127.9	128.7	122.9	na	na	na
GDP (US\$ bil)	373.1	372.2	91.9	93.0	94.4	88.7	na	na	na
Real GDP Growth (YOY % change)	3.4	0.7	0.2	0.7	1.0	-0.3	-12.6 {e	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	-0.8	2.2	0.6	-3.3	-41.2 {e	na	na
By Sector (YOY % change):									
Manufacturing ^{1/}	7.0	-1.5	-0.5	-1.2	-4.0	7.9	-0.7	-8.1	-6.7
Electronics ^{1/}	7.6	-7.3	-11.6	-9.1	-3.8	-6.2	5.6	0.0	17.3
Non-electronics ^{1/}	6.6	2.8	7.7	4.4	-4.1	17.7	-4.5	-12.9	-17.8
Finance & Insurance	7.2	4.1	5.1	4.1	4.0	8.0	na	na	na
Business Services	2.4	1.4	1.0	1.1	1.7	-3.3	na	na	na
Construction	-3.5	2.8	2.3	3.1	4.3	-1.1	-54.7 {e	na	na
Transportation & Storage	0.0	0.8	2.1	0.0	0.8	-8.1	na	na	na
Information & Communications	6.5	4.3	3.4	4.4	4.5	3.5	na	na	na
Wholesale & Retail Trade	2.8	-2.9	-3.6	-3.5	-1.9	-5.8	na	na	na
Accommodation & Food Services	3.1	1.9	1.2	1.9	2.5	-23.8	na	na	na
By Expenditure Component (YOY % change):									
Consumption	4.1	3.7	2.9	3.7	3.1	1.1	na	na	na
Private	4.2	3.7	3.2	3.8	2.6	-1.6	na	na	na
Public	2.9	2.8	0.7	2.6	4.3	8.5	na	na	na
Gross Fixed Capital Formation	-3.4	-0.2	-0.7	2.5	-1.7	1.6	na	na	na
Private	-3.1	-0.5	-1.7	3.3	-3.0	1.3	na	na	na
Public	-4.7	1.3	4.1	-0.9	4.5	2.8	na	na	na
External Demand	8.1	-1.6	-2.2	-3.4	1.6	0.5	na	na	na

Source:

^{1/} Index of Industrial Production from EDB

na: Not available

{e: Advance GDP estimates

Trade	2018	2019	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	May 20	Jun 20
Total Exports, fob (YOY % change)	7.9	-4.2	-4.6	-7.3	-4.3	-1.4	-13.8	-23.9	-3.6
Non-Oil Domestic Exports	4.2	-9.2	-14.7	-9.6	-5.7	5.4	6.5	-4.6	16.1
Re-Exports	7.4	2.3	2.0	-1.7	2.8	3.2	-6.8	-16.3	5.4
Total Imports, cif (YOY % change)	10.6	-2.1	0.5	-5.9	-6.3	2.6	-16.6	-26.2	-9.9
Wage-price Indicators									
Unemployment Rate (SA, %)	2.1	2.3	2.2	2.3	2.3	2.4	2.9 #	na	na
Average Nominal Wages (S\$ per month)	5,410	5,549	5,225	5,183	5,783	6,148	na	na	na
Consumer Price Index Inflation (YOY % change)	0.4	0.6	0.8	0.4	0.6	0.4	-0.7	-0.8	-0.5
MAS Core Inflation (YOY % change)	1.7	1.0	1.3	0.6	0.5	0.0	-0.2	-0.2	-0.2
Financial Indicators									
S\$ Exchange Rate Against: (end-period)									
US Dollar	1.3648	1.3472	1.3535	1.3813	1.3472	1.4247	1.3932	1.4143	1.3932
100 Japanese Yen	1.2359	1.2398	1.2576	1.2796	1.2398	1.3142	1.2931	1.3169	1.2931
Euro	1.5618	1.5094	1.5383	1.5101	1.5094	1.5710	1.5658	1.5685	1.5658
Interest Rates (end-period, % p.a.)									
3-month Fixed Deposit Rate	0.17	0.20	0.20	0.20	0.20	0.24	0.18	0.20	0.18
3-month S\$ SIBOR ^{2/}	1.89	1.77	2.00	1.88	1.77	1.00	0.56	0.56	0.56
Prime Lending Rate	5.33	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)	3.9	5.0	5.4	4.8	5.0	6.8	11.0	9.5	11.0
Straits Times Index (end-period) ^{3/}									
YOY % change	-9.8	5.0	1.6	-4.2	5.0	-22.8	-22.0	-19.5	-22.0

Source:

^{2/} ABS Benchmarks Administration Co Pte Ltd

^{3/} Straits Times Index from SGX

na: Not available

#: Preliminary estimates

Government Budget ^{4/}	2018	2019	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	May 20	Jun 20
Operating Revenue (S\$ mil)	77,117	75,299	20,145	20,561	15,785	17,773	na	na	na
Total Expenditure (S\$ mil)	75,240	76,047	12,865	16,892	18,800	26,771	na	na	na
Operating Expenditure	56,246	57,987	9,882	13,071	15,284	20,421	na	na	na
Development Expenditure	18,993	18,060	2,982	3,822	3,516	6,351	na	na	na
Primary Surplus/Deficit (S\$ mil)	1,877	-748	7,280	3,669	-3,015	-8,999	na	na	na
% of GDP	0.4	-0.1	5.8	2.9	-2.3	-7.3	na	na	na
Balance of Payments									
Current Account Balance (% of GDP)	17.2	17.0	19.7	18.9	15.2	12.6	na	na	na
Goods Balance	27.9	26.3	29.4	26.4	24.8	22.0	na	na	na
Services Balance	0.6	1.5	1.2	2.6	1.0	2.1	na	na	na
Primary Income Balance	-9.6	-9.2	-9.1	-8.4	-9.0	-9.8	na	na	na
Secondary Income Balance	-1.6	-1.7	-1.9	-1.7	-1.6	-1.6	na	na	na
Capital & Fin Account Balance (% of GDP)	13.2	18.7	44.5	14.9	11.7	7.4	na	na	na
Direct Investment	-16.4	-19.4	-19.7	-20.1	-20.0	-13.3	na	na	na
Portfolio Investment	9.6	27.1	65.7	18.5	20.9	5.4	na	na	na
Financial Derivatives	5.2	2.8	2.2	4.9	4.1	1.7	na	na	na
Other Investment	14.8	8.2	-3.7	11.6	6.7	13.5	na	na	na
Overall Balance (% of GDP)	3.4	-2.3	-25.6	3.2	2.7	5.7	na	na	na
Official Foreign Reserves (US\$ mil) ^{5/}	287,673	279,450	273,943	272,239	279,450	279,147	312,497	300,991	312,497
Months of Imports	9.3	9.3	8.9	9.0	9.3	9.3	11.0	10.5	11.0

Source:

^{4/} Ministry of Finance

^{5/} MAS

na: Not available