

4 Macroeconomic Policy

- In January and April this year, MAS maintained the prevailing rate of appreciation of the S\$NEER policy band, with no change to the width of the band or the level at which it was centred. MAS assessed that as inflation was expected to stay elevated in the immediate quarters ahead, the prevailing rate of appreciation of the policy band is needed to keep a restraining effect on imported inflation and domestic cost pressures. The gradually appreciating policy band is consistent with inflation stepping down more discernibly in Q4 and into 2025, and is sufficient for ensuring medium-term price stability.
 - Amid improving economic growth prospects and still-elevated inflation, Budget 2024 was tailored to provide further assistance to households and firms facing cost-of-living and cashflow concerns. At the same time, it set out the Government's priorities in building a more productivity-driven economy and equitable society, in line with the vision laid out in the Forward Singapore report. Nonetheless, the Budget's overall fiscal impulse for CY2024 was estimated to be appropriately restrained in aggregate. Overall, macroeconomic policy will continue to contribute to medium-term price stability and sustainable growth in the economy.
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4.1 Monetary Policy

In January 2024, MAS maintained the prevailing rate of appreciation of the S\$NEER policy band, with no change to its width and level

At the time of the January 2024 monetary policy review, global economic activity was more resilient than envisaged, largely reflecting better-than-expected outturns in the US and China. Overall growth momentum was expected to slow in the near term due to the lagged impact of high interest rates and less supportive fiscal policy. Global final demand was expected to pick up later in 2024, as lower inflation would underpin private consumption expenditure even as monetary policy settings in the major economies turned more supportive. The nascent recovery in the global tech and trade cycles would also boost activity in the regional economies.

The resilience in the global economic environment was reflected in the Singapore economy which picked up towards the end of 2023 and was projected to continue improving over the following year. The manufacturing and trade-related services sectors would be buoyed by the recovery in the global electronics industry, while activity in financial services was forecast to pick up in line with the plateauing and eventual easing of global interest rates. Meanwhile, growth in the domestic-oriented and travel-related clusters would ease, albeit remain above-trend, this year. Consequently, the slightly negative output gap in 2023 was expected to narrow in the second half of 2024.

MAS Core Inflation had moderated slightly in year-on-year terms in the last quarter of 2023. Core inflation was expected to pick up in Q1 2024 and stay elevated in the earlier part

of the year, due in part to the one-off impact of the hike in the GST to 9%, as well as the increase in the carbon tax, both of which were implemented in January 2024. Meanwhile water prices were slated to rise from Q2 amid increases in production costs. Inflation in services components such as healthcare and public transport would also remain elevated, as services fees in these sectors were projected to continue catching up to earlier increases in costs.

Looking through the transitory impact of the GST increase, core inflation was forecast to decline gradually over 2024, underpinned by lower import costs as well as a slower pace of labour cost increases. Global energy and food commodity prices were expected to remain broadly stable, while imported costs of most intermediate and final goods would also be tempered by ample global supply conditions. On the domestic front, wage growth was expected to ease this year as labour market tightness dissipated, while productivity was projected to pick up. Unit labour cost increases were consequently expected to moderate significantly, which would help alleviate business cost pressures.

With core inflation expected to step down by Q4 2024 and fall further in 2025, MAS assessed that prevailing monetary policy settings remained appropriate. The sustained appreciation of the policy band would continue to dampen imported inflation and curb domestic cost pressures, thus ensuring medium-term price stability.

Singapore's economic growth is expected to strengthen over the course of the year, similar to projections made in January

Global economic activity continued to demonstrate resilience in Q1. Growth in the US stayed firm, underpinned by a tight labour market which supported consumption. In China, economic activity picked up from H2 2023, due mainly to stronger exports and manufacturing investment. The relatively sanguine global economic environment in Q1, as well as the ongoing upturn in the global trade and tech cycles, supported the expansions in the external-oriented Asian economies, in line with prior expectations.

In the quarters ahead, the global economy should maintain a steady pace of expansion, although high real interest rates and less supportive fiscal policies will exert a modest drag. Notably, the US is now expected to turn in fairly robust growth, with domestic demand underpinned by strong private sector balance sheets and a resilient labour market. The upturn in the global electronics cycle is showing signs of broadening beyond semiconductors and will sustain growth in EM Asia. Although China's growth will ease for the year as a whole amid headwinds induced by the property sector, accommodative macropolicy settings should impart a positive impulse to the economy overall. All in, the global economy is expected to expand by 3.0% in 2024, slightly lower than 3.3% last year.

Singapore's GDP growth came in almost flat in Q1 2024 on a quarter-on-quarter seasonally-adjusted basis. Activity in the manufacturing sector experienced some correction following the electronics-led surge in the previous quarter. This drag was offset in part by a strong boost to the tourism-related and consumer-facing industries from a few large-scale concert events.

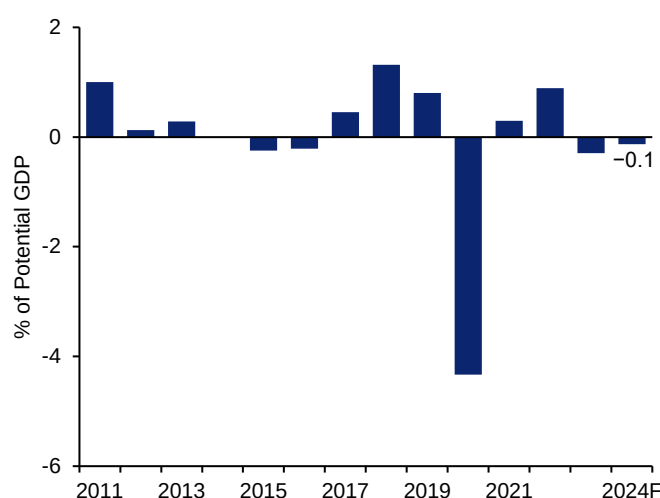
Growth momentum is projected to pick up over the rest of this year, with the pace of expansion becoming more even across sectors. The manufacturing sector should expand steadily alongside the global tech and trade upturn, with attendant positive spillovers to the trade-related services sectors. The expected easing in global interest rates in the later part of the year should also bolster a range of financial services activities. Meanwhile, growth in the

domestic-oriented and travel-related clusters is forecast to moderate but still remain firm, undergirded by solid construction activity and still-recovering tourist inflows. In aggregate, growth across the major sectors of the economy is expected to gradually converge to pre-pandemic norms.

For the full year, Singapore's GDP growth should strengthen to around its potential rate and come in between 1–3%. Consequently, the negative output gap that had opened up in 2023 is forecast to narrow and close by the end of the year (**Chart 4.1**).

Chart 4.1 Singapore's output gap is expected to narrow and close by end-2024

Output gap



Source: EPG, MAS estimates

Inflation will remain on a gradually moderating path over the rest of the year

MAS Core Inflation came in slightly lower than expected in year-on-year terms in Q1 2024 and was unchanged from the previous quarter. Inflation in essential services and goods rose as earlier increases in costs passed through to prices, while the step-up in the GST rate to 9% also kept inflation elevated for a broad swathe of CPI components. However, inflation for travel-related services, such as hotel accommodation and airfares, eased unexpectedly alongside favourable external supply conditions. Food inflation, including for non-cooked food as well as discretionary services such as restaurant meals, also moderated in line with ebbing business cost pressures. A range of alternative inflation indicators affirm that underlying inflation in the economy continues to gradually moderate.

At the same time, private transport and accommodation inflation fell, as car prices and residential property rents rose at a slower pace due to a greater supply of COE quotas and completed housing units, respectively. Consequently, CPI-All Items inflation declined discernibly in Q1.

In line with MAS' prior expectations, the pace of the decline in core inflation is slowing. A smaller drag from falling imported prices, as well as the ongoing catch up of some services prices to earlier cost increases, has kept inflation from moderating as quickly as in 2023. In particular, inflation has been increasingly driven by labour-intensive consumer-facing services that tend to adjust their fees less frequently. These include, for instance, education and

healthcare services. Water prices were also raised in April to keep pace with increases in the cost of production.

Nevertheless, inflation should continue to gradually moderate over the rest of 2024 amid broadly subdued imported price pressures and easing unit labour cost growth. Although crude oil prices have risen in recent months, their near-term inflationary impact is expected to be contained for now, and will be offset by easing inflation for other imported goods and services. Global prices of most food commodities as well as intermediate and final goods have remained stable or declined. In addition, as demand-supply conditions in the global travel industry continue to rebalance, the rate of price increases for travel-related services is expected to slow. These global price trends should be further filtered by the continuing appreciation of the S\$NEER. As such, barring further shocks, a broad range of import prices are projected to exert a drag on core inflation for a second consecutive year in 2024.

Meanwhile, resident wage growth eased in Q4 2023 and is expected to remain moderate alongside cooling labour demand over most of this year. Labour productivity growth is also anticipated to improve, as an investment pickup leads to a revival in capital deepening. Consequently, unit labour costs will increase at a significantly slower pace compared to the preceding two years. As the catch-up of consumer prices to permanently higher cost levels progresses further over the course of the year, inflationary pressures across a broad range of CPI components should also moderate more discernibly by late-2024.

All in, core inflation is forecast to stay elevated in the immediate quarters ahead before stepping down more discernibly in Q4. Meanwhile, easing private transport and accommodation inflation will exert a drag on CPI-All Items inflation. For 2024 as a whole, both core and headline inflation are projected to average 2.5–3.5%. Excluding the transitory effects of the increases in the GST rate, headline and core inflation are expected to come in at 1.5–2.5%. Inflation should continue to moderate into 2025, reflecting in part the fading impact of the GST, carbon tax, and water price increases.

The risks to the inflation outlook are tilted to the upside and will continue to evolve amid heightened global uncertainties. Global commodity supply disruptions, including from broadening geopolitical conflicts, could result in higher-than-expected energy prices. While some supply shocks may be short-lived and result in commodity prices rapidly reverting, other shocks, such as a sharp rise in oil demand due to precautionary building of oil buffers, could fuel more sustained increases in prices. At the same time, global growth could also pick up by more than anticipated in H2 2024, generating external inflationary pressures while fuelling stronger domestic economic growth. A broad-based and sustained uplift in labour demand could lead to a re-acceleration in wage growth and persistently high inflation.

Downside risks from weaker-than-expected global demand remain. In the major economies, economic activity appears to be resilient. However, there are still lingering risks from higher for longer global interest rates and capital flow volatility. An escalation in geopolitical conflicts could also lead to an abrupt increase in financial market stress and heightened uncertainty, dampening global and domestic growth prospects.

In April 2024, MAS kept the S\$NEER on its current appreciating path

In line with the baseline expectation that domestic GDP growth rises to around its potential rate, the Singapore economy's slightly negative output gap should close by year-end. In the immediate quarters ahead, core inflation is projected to remain elevated at around current levels. Nevertheless, as most external and domestic cost pressures continue to abate,

MAS Core Inflation should stay on its broadly moderating path and step down more discernibly in Q4, before falling further in 2025.

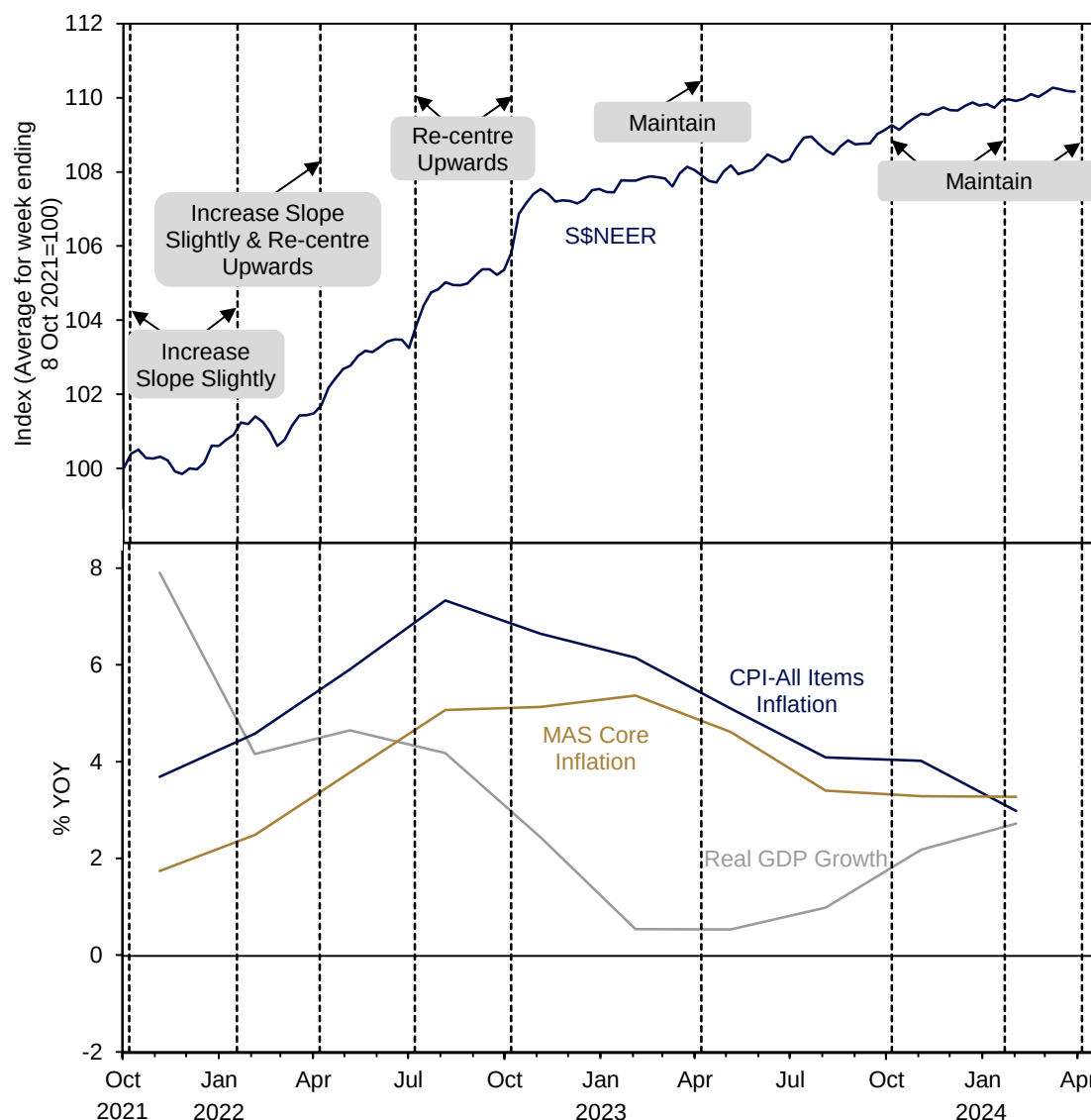
Against this backdrop, MAS assessed that the prevailing rate of appreciation of the policy band is needed to keep a restraining effect on imported inflation as well as domestic cost pressures. Barring the materialisation of shocks that displace growth and inflation onto a fundamentally different trajectory, the current appreciation path of the S\$NEER policy band remains sufficient for ensuring medium term price stability.

MAS therefore decided to maintain the prevailing rate of appreciation of the S\$NEER policy band in April 2024. There was no change to the width of the band or the level at which it was centred.

There are risks to the inflation and growth outlook stemming from shocks to global energy prices and trade, as well as financial stresses arising from an unexpected tightening in global financial conditions. MAS will closely monitor global and domestic economic developments and remains vigilant to risks to inflation and growth. **Chart 4.2** summarises the recent shifts in monetary policy, GDP growth and inflation in the Singapore economy.

Chart 4.2 Key macroeconomic variables and changes to the monetary policy stance

S\$NEER, real GDP growth, CPI-All Items inflation and MAS Core Inflation



Source: DOS and EPG, MAS estimates

Note: Vertical dashed lines indicate the past MPS decisions since Oct 2021. For a summary of MAS past policy decisions, please see "[Past Monetary Policy Decisions](#)".

The S\$NEER has continued to appreciate in the upper half of the policy band

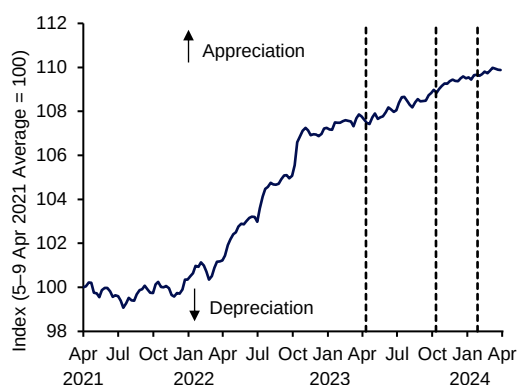
The S\$NEER appreciated within the upper half of the policy band between October 2023 and end-March 2024 (**Chart 4.3**). The S\$NEER appreciated by 0.8% over this period (point-to-point).

Bilateral exchange rates in these six months continued to be largely shaped by evolving expectations of inflation, growth and thus monetary policy abroad *vis-à-vis* Singapore (**Chart 4.4**). The S\$ appreciated against the US\$ in late-2023 but has weakened somewhat since the turn of the year, reflecting financial markets' shifting expectations of US interest rates. The S\$ strengthened against several regional currencies including the Malaysian ringgit,

Indonesian rupiah and Japanese yen. In contrast, the S\$ depreciated against the Euro and the A\$.

Chart 4.3 The S\$NEER appreciated in the upper half of the policy band

S\$NEER, weekly average

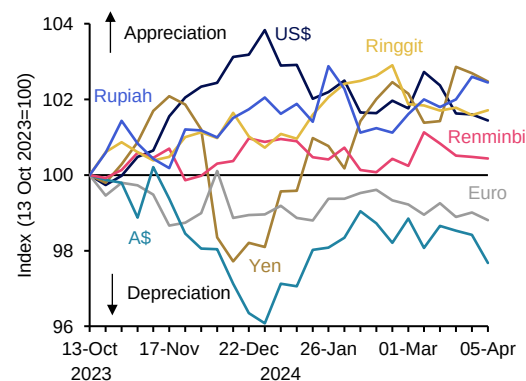


Source: EPG, MAS estimates

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

Chart 4.4 Bilateral exchange rates were driven by differences in monetary policy stances

Bilateral exchange rates, weekly average



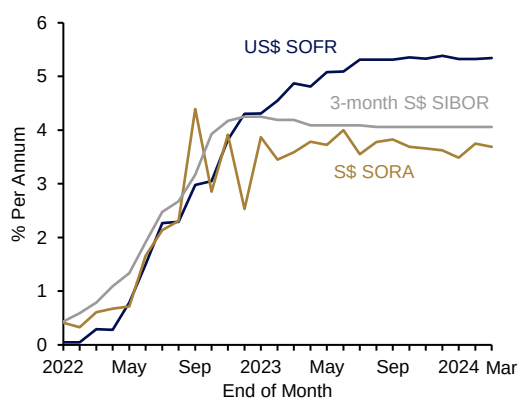
Source: EPG, MAS estimates

Short-term US\$ interest rates remained stable in the period between the October and April policy statements (**Chart 4.5**). The US\$ Secured Overnight Financing Rate (SOFR) remained between 5.3% and 5.4% from end-October 2023 to end-March 2024. In tandem with short-term US\$ rates, S\$ interest rates also remained stable, with the S\$ Singapore Overnight Rate Average (SORA) hovering between 3.5% and 3.7% over the same period.

Domestic liquidity conditions tightened slightly throughout the period between October 2023 and end-March 2024, albeit at a slower pace than in late-2022 (**Chart 4.6**). The tightening was driven mainly by the strengthening of the S\$NEER, as MAS had kept the exchange rate policy band on its prevailing rate of appreciation, whereas domestic interest rates were stable.

Chart 4.5 S\$ interest rates have been stable in tandem with US\$ rates

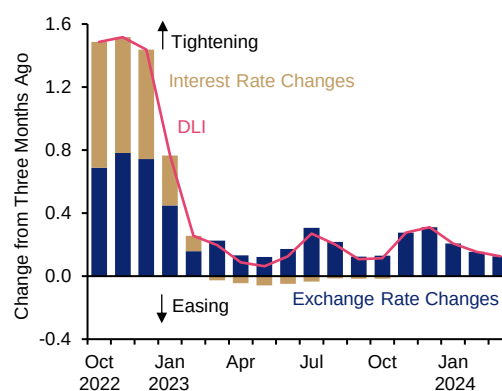
US\$ and S\$ interest rates, end of month



Source: ABS Benchmarks Administration Co Pte Ltd, Federal Reserve Bank of New York and MAS

Chart 4.6 Domestic liquidity conditions tightened slightly

Domestic Liquidity Indicator and components



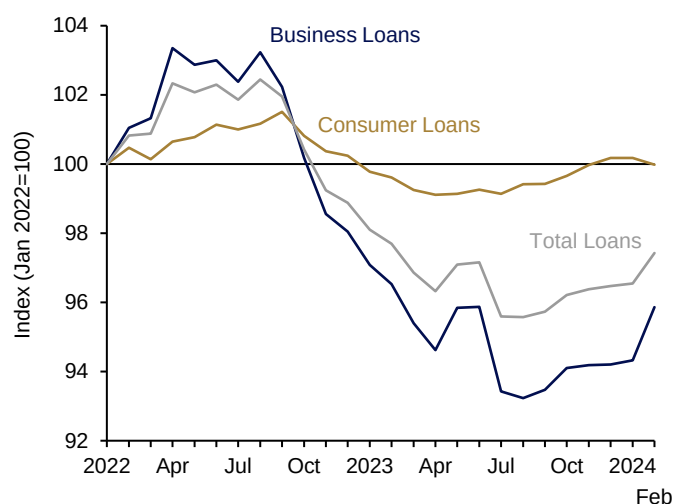
Source: ABS Benchmarks Administration Co Pte Ltd and EPG, MAS estimates

Total outstanding loans increased, while broader money supply expanded slightly

The overall stock of loans expanded over the past six months, in line with a gradually improving economic outlook. Total loans increased from \$792 billion in October 2023 to \$801 billion in February 2024, driven mainly by an increase in business loans. Nonetheless, the stock of outstanding loans remained 4.9% below its recent peak in August 2022 (**Chart 4.7**).

Chart 4.7 Total loans have increased in the last six months

Outstanding stock of non-bank loans



Source: MAS

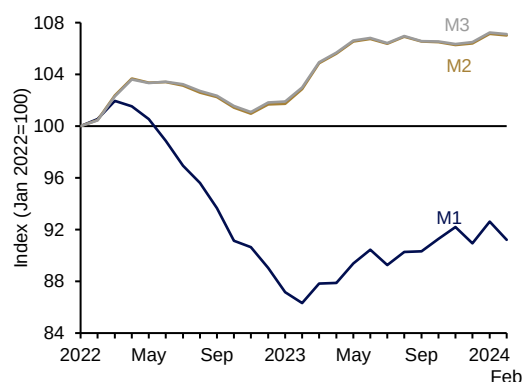
Monetary aggregates rose slightly in recent months (**Chart 4.8**). M1 edged up, as an increase in currency in active circulation was partly offset by a decrease in demand deposits

(Chart 4.9). Meanwhile, M2 and M3 grew as fixed deposit holdings increased, reversing a decline towards the end of 2023.

The impact of the increase in the money supply on nominal GDP was bolstered by a slight increase in its velocity. The velocity of money (M1), computed using the four-quarter rolling sum of nominal GDP, increased somewhat in Q4 2023 compared to the preceding quarter.

Chart 4.8 Money supply increased slightly in recent months...

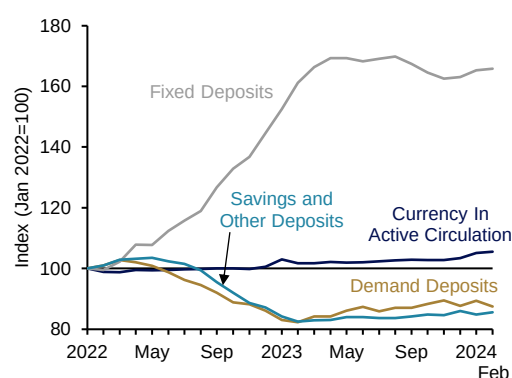
Monetary aggregates



Source: MAS

Chart 4.9 ...as fixed deposit holdings increased

Components of money supply



Source: MAS

4.2 Fiscal Policy

Budget 2024 bolstered targeted near-term support, and set out the Government's longer-term priorities

Budget 2024 was presented in a context of improving economic growth prospects for Singapore, even as inflation remained a concern. While inflation was expected to decline further over the year, overall cost and price levels in the economy had risen significantly. The prices of some essential goods and services, such as water and healthcare, would also continue to increase in 2024.

The Budget aimed to address these cost concerns, particularly for vulnerable households and firms, even as the overall fiscal package was appropriately sized for the stage of the business cycle. It also set out the first instalment of policy measures based on the long-term economic and social objectives distilled from the Forward Singapore exercise. A significant announcement was the measures aimed at providing structural support for workers throughout their careers and during periods of involuntary unemployment. Additionally, measures were introduced to reduce income inequality, promote social mobility, and increase investment and R&D. Overall, Budget 2024 built on previous Budget initiatives, with the aim of advancing Singapore further in productivity-led economic growth and a more inclusive society.

Additional transfers were provided to households and firms to cope with higher costs

Amid weak real wage growth last year, Budget 2024 provided an additional \$1.9 billion to alleviate cost-of-living pressures for households under the Assurance Package. The support came in the form of cash transfers, vouchers, and rebates largely targeted towards lower- and middle-income households. For instance, there were additional tranches of Community Development Council (CDC) Vouchers, a Cost-of-Living Special Payment, and additional one-off U-Save and Service and Conservancy Charges (S&CC) rebates. Budget 2024 also provided a 50% personal income tax rebate of up to \$200 per tax resident individual for Year of Assessment (YA) 2024.

For businesses, Budget 2024 introduced the \$1.3 billion Enterprise Support Package to help tide firms over the prolonged period of elevated cost pressures. The package included a corporate income tax rebate, enhancements to the Enterprise Financing Scheme, and an extension of the SkillsFuture Enterprise Credit to help mitigate costs associated with initiatives to raise productivity. With the measures tilted towards firms that are already transforming and restructuring, the package should help undergird the resilience of businesses in the near term.

In addition, the Budget sought to cushion the impact of higher business costs brought about by other policies that are needed to uplift wages and improve the retirement adequacy of workers. Specifically, the maximum co-funding level under the Progressive Wage Credit Scheme (PWCS) in 2024 was raised from 30% to 50% to help defray a larger share of employers' costs arising from wage increases for lower-wage workers. In light of the forthcoming increase in the CPF contribution rate for older workers, the Budget also extended the CPF Transition Offset for another year to cover half of the increase in employer contributions. These measures should ensure that the impact of policy moves to uplift wages and bolster retirement adequacy are smoothed out and do not excessively burden firms at a time when many are confronted with elevated cost pressures.

Efforts were stepped up to boost the resilience and competitiveness of the Singapore economy...

In the decades ahead, the Singapore economy will need to grapple with major structural shifts stemming from a more uncertain external environment, technological disruptions, as well as the green transition. Budget 2024, as the first instalment of the Forward Singapore initiatives, laid out the Government's roadmap for navigating these challenges.

First, the Budget significantly enhanced support for mid-career workers undergoing career transitions. The SkillsFuture Level-Up Programme provides such workers seeking to upskill or reskill with a SkillsFuture Credit (Mid-Career) top-up of \$4,000 to pursue another full-time diploma, and a monthly training allowance when they pursue selected full-time courses. For workers facing involuntary unemployment, Budget 2024 announced the introduction of a temporary financial support scheme, with details to be provided later in the year. Both sets of measures would strengthen the resilience of workers and incentivise investments in needed skills. The financial support provided during training would also reduce the likelihood of workers resorting to courses that do not meaningfully improve their skills or employability, as well as jobseekers accepting jobs that are a poor match to their skills. Overall, these measures should support resident workers in acquiring skills for in-demand jobs, and alleviate labour shortages due to skills mismatches.

Second, the Budget renewed efforts to enhance the productive capacity of the economy. Measures were introduced to boost investment in tangible and intangible capital, and facilitate technology transfer from the more productive sectors and firms of the economy. The Budget also set aside a significant amount to be deployed to upgrade the nationwide broadband network, invest in energy transition infrastructure and enhance security in clean energy, strengthen Singapore's R&D ecosystem, and build up know-how for new technologies, such as artificial intelligence. To attract high-value and substantive investments into Singapore, the Budget introduced the Refundable Investment Credit, which is a tax credit with a refundable cash feature. The Partnerships for Capability Transformation (PACT) scheme was also enhanced to facilitate the partnerships—including in capability training, internationalisation, and corporate venturing—between larger, more productive companies and SMEs. The Budget also bolstered initiatives to help firms increase their energy efficiency and adopt green solutions.

...while ensuring that economic growth remained inclusive

Budget 2024 continued to build on the Government's push in recent years to raise the wages of lower-income workers. Increases to the qualifying income thresholds for the Workfare Income Supplement (WIS) and Silver Support schemes, as well as adjustments to the Local Qualifying Salary for local workers and wage ceiling under the PWCS, will help ensure that the support to the needy and those at the lower end of the income distribution keeps pace with economy-wide wage increases in recent years. In addition, the WIS payouts for lower-wage workers were also increased, to help protect the purchasing power and retirement adequacy of this vulnerable group. The annual income threshold for claiming dependant-related personal income tax relief was doubled, to allow more taxpayers who provide for dependant family members to enjoy these reliefs.

The Budget also strengthened social policies to lessen early disadvantages that might reduce social mobility later in life. For instance, under the new ITE Progression Award, top-ups to the Post-Secondary Education Account and CPF Ordinary Account amounting to \$15,000 will be made to ITE graduates aged 30 and below who go on to complete a diploma programme. Early childhood education will also be made more affordable for more families, through lower caps on fees charged by Government-supported preschools and the extension of preschool subsidies to all children from lower-income families, including those with non-working mothers. The maximum fees at Special Education schools and fee caps in Special Student Care Centres will also be lowered. By making education more affordable for more students and families, these measures should help increase opportunities for them to improve their longer-term socioeconomic outcomes.

Budget 2024 is projected to result in a modest basic budget deficit

The Government's basic budget deficit is projected to be \$6.1 billion (0.8% of GDP) in FY2024, close to the previous year's deficit of \$5.4 billion (0.8% of GDP) (**Table 4.1**). This reflects proportional increases in both operating revenue and total expenditure.

Taking into account top-ups to endowment and trust funds, and the Net Investment Returns Contribution, the deficit in the overall balance is forecast to be smaller at \$2.9 billion (0.4% of GDP), compared to \$6.8 billion in FY2023 (1.0% of GDP). When the capitalisation and depreciation of nationally significant infrastructure, and related interest costs and loan expenses are included, Singapore should record a marginal surplus in its overall fiscal position, amounting to \$0.8 billion (0.1% of GDP).

Table 4.1 Budget summary (FY basis)

	FY2023 Revised		FY2024 Estimated	
	\$ Billion	% of GDP	\$ Billion	% of GDP
Operating Revenue	104.3	15.2	108.6	15.1
Total Expenditure	106.9	15.6	111.8	15.5
Primary Surplus (+) / Deficit (-)	-2.6	-0.4	-3.1	-0.4
Less: Special Transfers (excluding top-ups to endowment/trust funds)	2.8	0.4	2.9	0.4
Basic Surplus (+) / Deficit (-)	-5.4	-0.8	-6.1	-0.8
Less: Special Transfers (top-ups to endowment/trust funds)	24.3	3.5	20.4	2.8
Add: Net Investment Returns Contribution	22.9	3.3	23.5	3.3
Overall Budget Surplus (+) / Deficit (-)	-6.8	-1.0	-2.9	-0.4
Add: Capitalisation of Nationally Significant Infrastructure	3.5	0.5	4.1	0.6
Less: Depreciation of Nationally Significant Infrastructure	0.0	0.0	0.0	0.0
Less: SINGA Interest Costs and Loan Expenses	0.2	0.0	0.4	0.1
Overall Fiscal Position (+) / Deficit (-)	-3.6	-0.5	0.8	0.1

Source: MOF

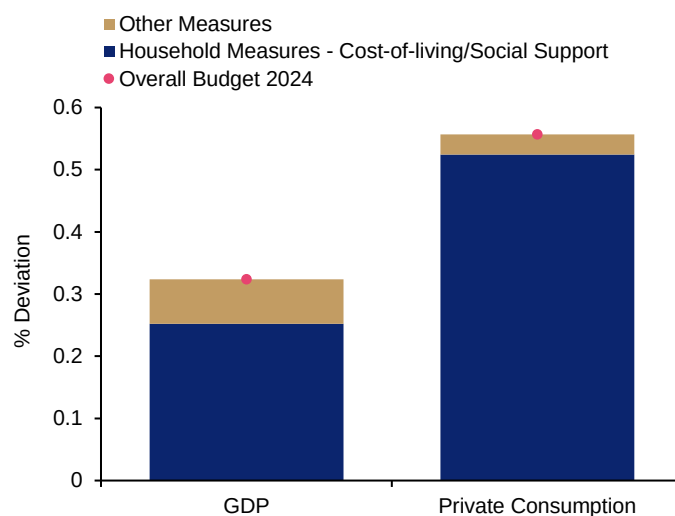
Fiscal policy is appropriately restrained amid the economic recovery and gradually easing inflation

The fiscal impulse (FI)¹ is estimated to be modestly negative, at -0.5% of GDP in CY2024.² The negative FI reflects fiscal support that is appropriately restrained in aggregate, and consistent with the improving growth prospects for the economy, even as support continued to be targeted at those facing cost-of-living challenges.

To quantify the impact of Budget 2024 in a general equilibrium context and account for its spillover effects, key measures were simulated using the Monetary Model of Singapore. Budget 2024 is estimated to raise real GDP levels by 0.3% in CY2024, largely driven by transfers to households to alleviate cost-of-living concerns as well as various healthcare and social support schemes (**Chart 4.10**). The measures to help households deal with increased out-of-pocket expenses are estimated to raise real aggregate disposable incomes, by about 0.8% this year, and partially offset the drag on consumption from higher prices.

¹ The fiscal impulse is a measure of the net change in fiscal support to GDP *growth*. This is computed by comparing the cyclically adjusted budget balance (CABB) for this year, against the previous year. In turn, the CABB is a gauge of the discretionary fiscal injection to demand, separate from changes in revenue and expenditure that arise endogenously from the *level* of economic activity. In line with the standard international methodology used by the IMF, the MAS estimate uses a base year where output is assessed to be close to potential to determine the benchmark revenue and expenditure ratios. These ratios are then used to compute the CABB.

² The CY2024 estimate differs from the fiscal impulse estimate published in MOF's Analysis of Revenue and Expenditure, which is computed for FY2024. The difference reflects lumpiness in the quarterly profile of projected revenues and spending. Adjusting for this timing difference of cash flows, the fiscal impulse estimates over a four-quarter period would be similar.

Chart 4.10 Budget 2024 is expected to raise real GDP and private consumption in CY2024

Source: EPG, MAS estimates

All in, MAS assesses that Budget 2024 has been calibrated appropriately for the evolving needs of the Singapore economy. While the Budget in aggregate exerts some restraint on the economy, the measures therein have been crafted to provide further near-term support for vulnerable households and firms and facilitate a meaningful uplift in physical and human capital over the longer term. These should put Singapore in good stead along a productivity-driven growth path.