4 Macroeconomic Policy

- In July 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.

- In Q3, Singapore's GDP growth had picked up on the back of the global tech cycle upswing, and the slightly negative output gap was expected to close in H2. Core inflation had continued to moderate and was projected to fall to around 2% by the end of 2024. Against this backdrop, MAS assessed in October that monetary policy settings were for now still consistent with the mandate of ensuring medium-term price stability. In 2025, significant uncertainty in the global economy implies that both upside and downside risks to the inflation outlook are present, but these have become more balanced.

- Even as the implementation of Budget 2024 continued to provide near-term support to households and firms, the fiscal impulse for CY2024 is estimated to have a restrained impact on inflationary pressures. The Budget also included the first instalment of the Forward Singapore agenda, which laid the foundations to better position the economy for future challenges and build a more equitable and inclusive society.

4.1 Monetary Policy

In July 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 July monetary policy review, global economic growth was forecast to remain stable. Central banks were expected to begin normalising monetary policy as inflation—especially in the US and Eurozone—was projected to gradually decline towards their targets. The resultant easing in financial conditions would provide a further boost to global capex, which was already being lifted by investments in AI-related activities. The sustained upturn in the global tech cycle would in turn buoy regional IT manufacturing and trade, including in China. However, domestic demand in China was projected to stay subdued amid a still-weakening property sector.

Singapore's GDP growth was forecast to pick up in the second half of the year after a tepid H1. The upturn in the global tech cycle was expected to broaden and lift activity in Singapore's trade-related sectors, such as manufacturing and wholesale trade. At the same time, the easing in global financial conditions in anticipation of future interest rate cuts would support activity in the financial services sector. The travel-related cluster was also expected to continue growing at an above-trend pace, sustained by a further recovery in international travel. All in, domestic GDP growth was projected to come in closer to its potential rate of 2–3% for the full year, following the 1.1% recorded in 2023. Accordingly, the negative output gap would close by the end of 2024 and turn mildly positive in 2025.

MAS Core Inflation continued to ease in Q2, but remained sticky at around 3.0% y-o-y for the fourth consecutive quarter. Nevertheless, there were signs that the disinflation trend was becoming more entrenched and broad-based. Abstracting from the one-off impact of the water price hike in April, prices of non-cooked food and other retail goods rose at a slower pace while inflation for several services categories also slowed alongside more modest unit labour cost growth. Notably, the seasonally adjusted q-o-q rate of core price increases, which abstracts the one-off effects of the hikes in GST and carbon tax, moderated to an annualised rate of 2.1% in Q2.

MAS Core Inflation was forecast to slow further in the quarters ahead. Imported inflation would contribute negligibly to core inflation; commodity prices were projected to stay broadly stable while global producer prices were only showing nascent signs of picking up despite the spike in shipping rates amid the escalating Middle East conflict. On the domestic front, wage growth rose sharply in Q1, largely because of one-off bonus payments and wage increments in a narrow group of sectors with strong nominal profitability, such as air transport and financial services. Excessive tightness in the labour market was expected to dissipate such that underlying wage growth gradually moderates, while labour productivity should pick up, further dampening the pace of unit labour costs increases.

Core inflation was forecast to average around the mid-point of the 2.5–3.5% range for 2024 as a whole, and fall further to around 2% in 2025. However, against a backdrop where inflation had been elevated for a prolonged period, and imported and domestic costs could still re-accelerate, MAS judged that the balance of risks remained tilted towards inflation staying persistently above 2%.

Accordingly, in July, MAS assessed that the prevailing monetary policy settings remained appropriate to maintain a restraining effect on imported inflation as well as domestic cost pressures. Therefore, MAS kept the S$NEER policy band on its appreciation path, with no change to the level of its mid-point or width of the band.

In recent months, Singapore's GDP growth has picked up; the negative output gap will close in H2

Since the July policy review, incoming data has affirmed the resilience of the world economy. Global IT demand has decisively broadened from AI-related chips to auxiliary electronics and consumer products, imparting a significant uplift to the Singapore economy. Global macroeconomic policy settings have also turned more supportive, helping to boost sentiment and domestic financial activity.

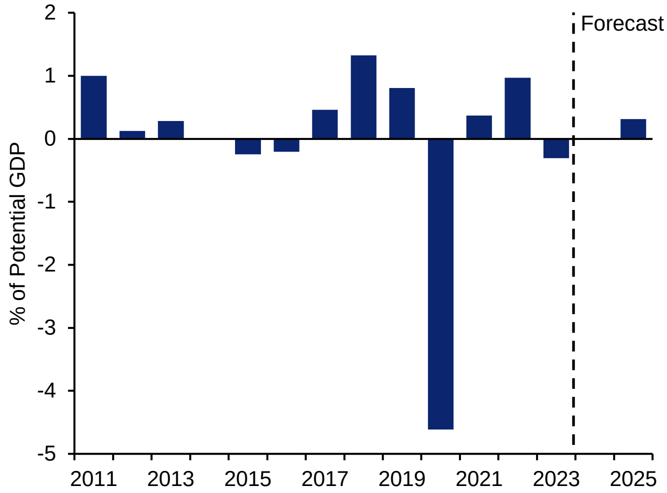
The potentially synchronised easing in global macroeconomic policies should ensure that Singapore's major trading partners expand at around their trend pace in the quarters ahead. Barring major shocks, final demand is forecast to remain stable and global spending on IT products should be sustained. In particular, the US Federal Reserve and the European Central Bank, as well as some regional central banks, have begun to ease monetary policy in possibly a sequence of interest rate cuts that could sustain global growth. As for China, policymakers have enacted monetary and fiscal policies, alongside targeted support for the property and financial markets, to stabilise slowing growth momentum.

In the coming quarters, Singapore's economic expansion is expected to moderate from the exceptional Q3 pace but remain stronger compared to H1 2024. Following the robust Q3 outturn, GDP growth is forecast to come in around the upper end of the 2–3% forecast range in 2024. For now, growth should keep close to its potential rate next year. The negative output gap that had emerged over the course of 2023 is estimated to close before the end of this year, and turn only slightly positive on average in 2025 **(Chart 4.1)**.

Nonetheless, significant uncertainties remain in the external environment that could cloud the economic outlook. A sharp escalation in geopolitical conflicts and trade tensions would raise economic policy uncertainty and weigh on business and consumer confidence. Shocks to global energy prices, as well as surprises around the pace and impact of global macroeconomic policy easing, could also induce financial market volatility and exert a drag on sentiment. These factors could, in turn, lead to a sharp correction in the global electronics and trade cycles, with attendant effects on the Singapore economy.

Chart 4.1 Singapore's output gap is expected to be slightly positive in 2025 as a whole

Output gap



Source: EPG, MAS estimates

MAS Core Inflation eased in Q3, and is projected to moderate further, coming in around 2% by end-2024 as well as in 2025

Core inflation fell to 2.7% y-o-y in Q3 from 3.0% in Q2, as sequential price increases slowed sharply to 0.6% q-o-q SAAR from 2.1%. The moderation in inflation momentum was broad-based across goods and services, driven by outright declines in imported prices as well as smaller increases in unit labour cost. The downtrend in y-o-y inflation is likely to persist in the near term, as alternative underlying inflation indicators such as the trimmed mean and persistence weighted measures point to a declining pace of price increases for a broad swathe of items. Notably, services price levels have broadly caught up with accumulated increases in costs, suggesting that services inflation should ease further in the near term.

Given these factors, MAS Core Inflation is projected to continue slowing over the remainder of 2024 and end the year at around 2%. In Q4, this will be supported by the dissipation of pent-up travel demand and increased supply in the global travel and hospitality industries, as well as the disinflationary impact of healthcare subsidies introduced from October 2024. For the full year, core inflation is expected to average between 2.5–3.0%, the lower half of the previous forecast range. CPI-All Items inflation should come in around 2.5%.

In 2025, core inflation is forecast to be around the mid-point of the 1.5–2.5% range as cost pressures are anticipated to stay moderate. On the external front, global commodity prices are projected to decline or remain stable next year, largely reflecting still-favourable supply conditions for crude oil and food production. Domestic unit labour cost growth should remain moderate amid lower wage growth and stronger productivity. At the same time, the government has enhanced subsidies to temper cost of living pressures, which will dampen inflation and cost pass-through in essential services such as education, healthcare and public transport from late-2024 and early-2025. CPI-All Items inflation is also projected to average 1.5–2.5% in 2025 as the continued moderation in accommodation inflation partially offsets an anticipated pickup in private transport inflation.

Risks to Singapore's inflation outlook have become more balanced compared to prior monetary policy reviews. Upside risks are still present: an intensification of geopolitical tensions or supply disruptions in global commodity markets could trigger renewed cost-push shocks. Moreover, should global growth come in stronger than expected, labour demand in the domestic economy could pick up and cause unit labour cost growth to moderate more gradually. Equally, a more significant downturn in the global economy could induce an abrupt easing in cost and price pressures, and cause domestic inflation to come in materially lower than expected.

In October 2024, MAS assessed that current monetary policy settings remain appropriate for now

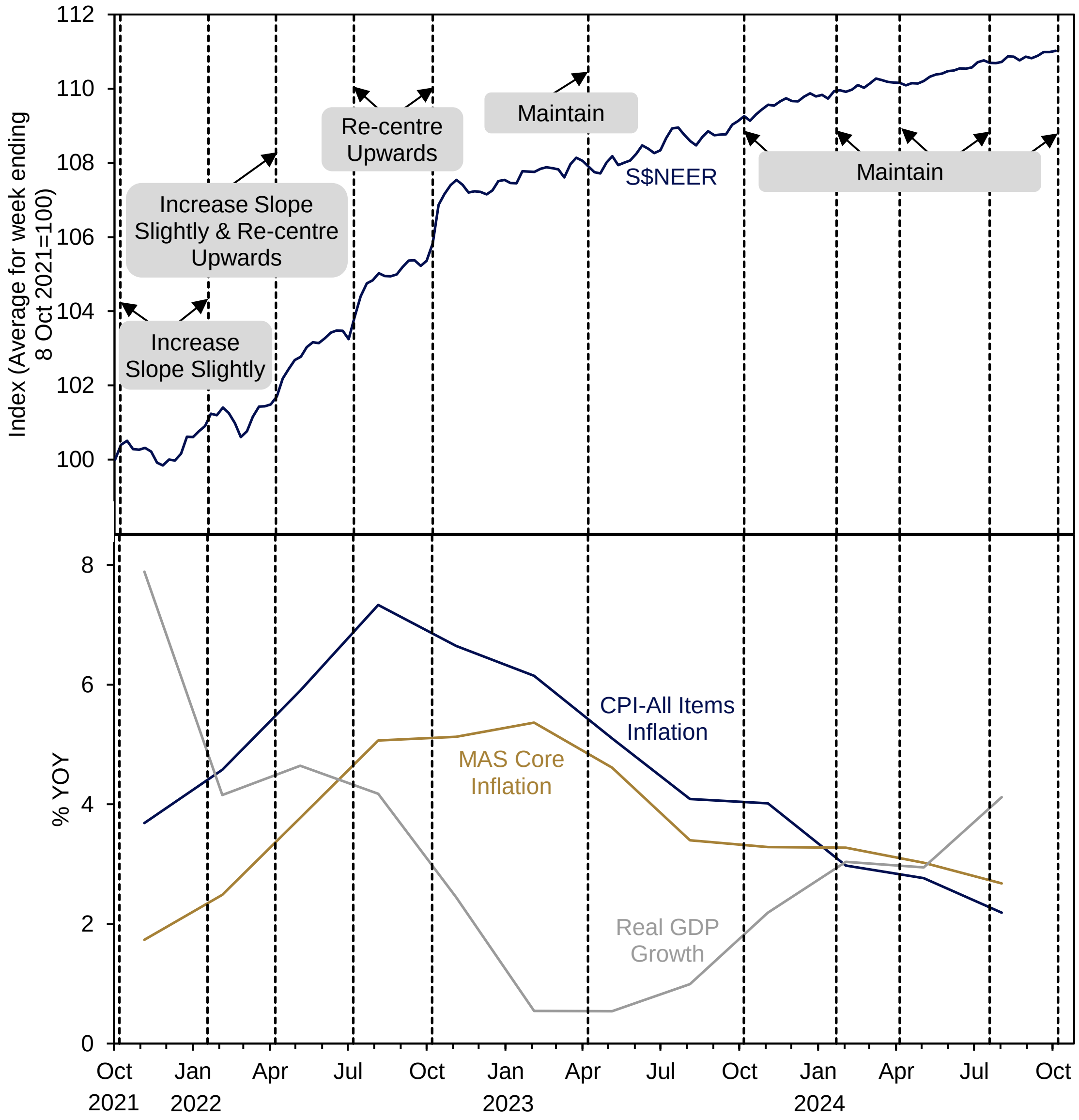
Singapore's near-term growth momentum has been stronger than expected. The output gap is likely to close before the year-end and turn slightly positive on average next year, barring a weakening in external demand. The disinflation trajectory is well-entrenched and MAS Core Inflation is forecast to decline to around 2% by the end of 2024.

Accordingly, MAS assessed that current monetary policy settings are for now consistent with medium-term price stability. MAS therefore maintained the prevailing rate of appreciation of the S$NEER policy band. There was no change to its width and the level at which it is centred. Significant uncertainty remains in the global economy and risks are, on balance, tilted towards lower global 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 appreciated in line with the policy band

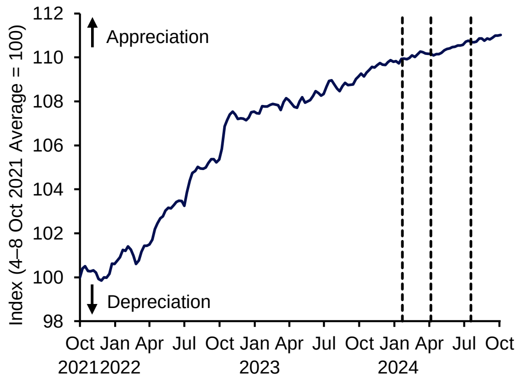
The S$NEER strengthened in line with the appreciating policy band in the six months before the October 2024 MPS **(Chart 4.3)**. On a point-to-point basis, the S$NEER appreciated by 0.7%.

Over this period, movements in bilateral exchange rates largely reflected evolving expectations of inflation, growth and thus relative shifts in monetary policies in Singapore and its other major trading partners, particularly the US **(Chart 4.4)**. From July, financial markets' conviction of an imminent loosening of US monetary policy grew, and culminated in the US Federal Reserve's 50 bps cut in the Federal funds rate in mid-September. The

Singapore dollar consequently appreciated against the US$, though other regional currencies such as the Malaysian ringgit strengthened by more. The S$ also continued to appreciate against other major currencies such as the Chinese renminbi and Euro.

Chart 4.3 The S$NEER has appreciated in line with the policy band

S$NEER, weekly average

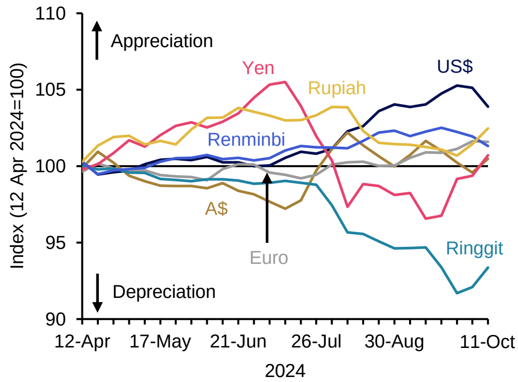


Source: EPG, MAS estimates

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

Chart 4.4 Bilateral exchange rates shifted in anticipation of looser US monetary policy

Bilateral exchange rates, weekly average



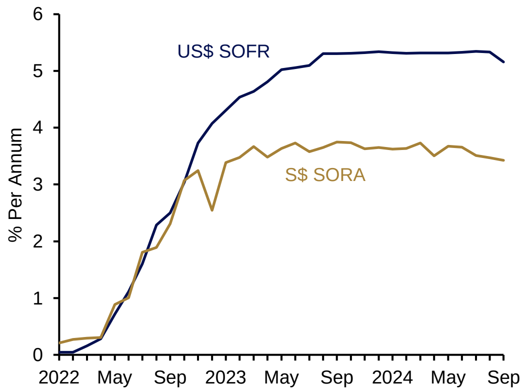
Source: EPG, MAS estimates

Short-term US$ interest rates were stable between April and August before declining in September following the loosening of US monetary policy that month **(Chart 4.5)**. The US$ Secured Overnight Financing Rate (SOFR) averaged 5.3% between April and August and eased to 5.2% in September. Meanwhile, short-term S$ rates moved largely in tandem with short-term US$ rates. The S$ Singapore Overnight Rate Average (SORA) hovered between 3.5% and 3.7% from April to August before falling to 3.4% in September.

Reflecting the movements in exchange and interest rates over the period, domestic liquidity conditions tightened slightly between April and August before easing in September, the first time liquidity conditions have become more accommodative since December 2021 **(Chart 4.6)**. The tightening of liquidity conditions in the months up to August was driven mainly by the appreciating S$NEER, while the subsequent easing in September was primarily due to the fall in domestic interest rates.

Chart 4.5 S$ interest rates declined in tandem with US$ rates

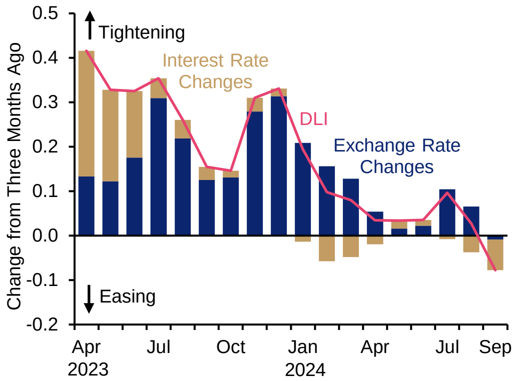
US$ and S$ interest rates, monthly average



Source: Federal Reserve Bank of New York and MAS

Chart 4.6 Domestic liquidity conditions eased in recent months

Domestic Liquidity Indicator and components



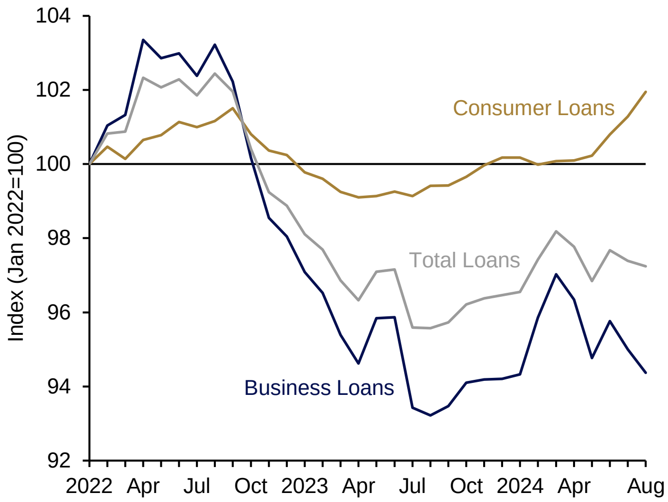
Source: EPG, MAS estimates

Total outstanding loans and broader money supply declined slightly

Against the backdrop of still-high interest rates, the total stock of loans to non-bank entities declined marginally in recent months, falling from $804 billion in April to $800 billion in August **(Chart 4.7)**. The decrease was driven by a fall in outstanding business loans, which outweighed an increase in the stock of consumer loans. Overall, the outstanding stock of total loans was still 1.8% higher than its recent trough in August 2023.

Chart 4.7 Total outstanding loans fell in recent months

Outstanding stock of non-bank loans

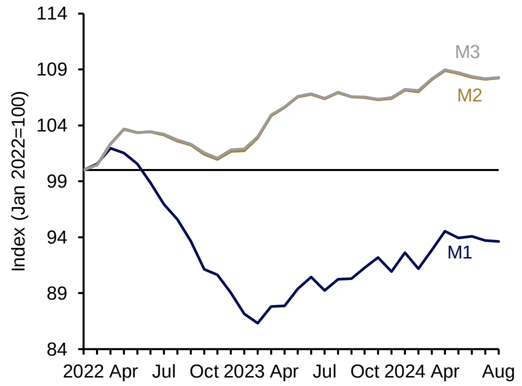


Source: MAS

Mirroring the decline in outstanding credit extended in the economy, monetary aggregates fell slightly over the period between April and August **(Chart 4.8)**. M1 edged down due to a decrease in demand deposits, which more than offset an increase in currency in active circulation **(Chart 4.9)**. M2 and M3 also fell as the stock of fixed deposits as well as that of savings and other deposits declined. The velocity of money (M1), computed using the four-quarter rolling sum of nominal GDP, was unchanged in Q2 2024 from the preceding quarter.

Chart 4.8 Money supply has fallen slightly since April...

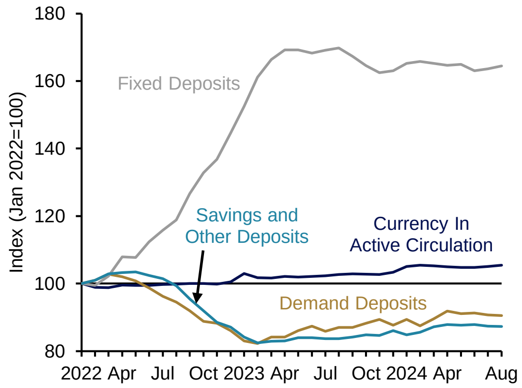
Monetary aggregates



Source: MAS

Chart 4.9 ...as demand, fixed, and savings deposits declined

Components of money supply



Source: MAS

4.2 Fiscal Policy

Budget 2024 provided targeted support in the face of cost concerns, but also renewed efforts to enhance social and economic resilience

Budget 2024 was announced in February against a backdrop of improving growth prospects and gradual disinflation. There were incipient signs of an upturn in the global tech and trade cycles, which were expected to contribute to stronger growth in Singapore's external-oriented sectors, especially in the latter half of the year. Meanwhile, inflation had moderated from its peak, but was still elevated by historical comparison. Overall price and cost levels in the economy had risen considerably, and were expected to remain permanently higher, even as inflation was expected to decline further.

To address cost concerns, the Budget further enhanced the Assurance Package to provide cash transfers, vouchers, and rebates in particular for lower- and middle-income households. These included 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 2024. The latest tranche of measures followed from the significant support already provided in FY2023. The Government also announced in September that it would provide an additional $250 million in subsidies to bus and MRT operators, to cover the cost of moderating public transport fare increases.[1]

1 The Public Transport Council had allowed fares to rise by 6% this year, less than a third of the allowable increase of 18.9%. The additional subsidies of $250 million will cover the cost of deferring the remaining hike of 12.9% that will be rolled over to future fare review exercises. This is in addition to the structural subsidies provided in public transport.

For firms, Budget 2024 introduced the Enterprise Support Package to help firms manage cost pressures, with support tilted towards firms that made the effort to restructure and transform. This included a Corporate Income Tax Rebate, enhancements to the Enterprise Financing Scheme, and an extension of the SkillsFuture Enterprise Credit by a year. The Budget also included measures to cushion the impact of higher business costs brought about by policies aimed at uplifting wages of lower-income workers and improving retirement adequacy. These included raising the maximum co-funding level under the Progressive Wage Credit Scheme and extending the CPF Transition Offset for another year to cover half of the increase in employer CPF contributions for senior workers.

Aside from near-term cost concerns, Budget 2024 also included the first instalment of the Forward Singapore initiatives, which laid out the Government's roadmap for boosting Singapore's economic resilience and competitiveness, while ensuring that growth remains inclusive.

First, major measures were introduced to improve the resilience of workers and incentivise re-skilling. In particular, the government stated its intention to provide temporary financial support to help the involuntarily unemployed tide over income loss while they re-skilled or looked for better-fitting jobs. To this end, the SkillsFuture Jobseeker Support scheme will be implemented from April 2025. The scheme will focus on lower and middle-income individuals (previously earning an average of $5,000/month or less). To qualify for payouts under the scheme, individuals will have to actively search for a new job, attend career coaching or participate in eligible training courses. The Budget also stepped up support for mid-career workers undergoing career transitions through the SkillsFuture Level-Up Programme, which provides workers with a SkillsFuture Credit (Mid-Career) top-up to reskill or upskill, and a monthly training allowance when they take up selected courses. Those who enrol in eligible long-form training programmes under the SkillsFuture Level-Up Programme may receive this monthly training allowance in addition to Jobseeker Support scheme payouts, if they meet the eligibility criteria for the respective schemes.

Second, the Budget strengthened social policies to narrow wage gaps, and lessen early disadvantages that could drag on social mobility. In line with economy-wide wage increases, meaningful upward adjustments were made to the qualifying income thresholds of various healthcare and social support schemes (such as for MediShield Life premium subsidies, Workfare Income Supplement, and the Silver Support Scheme), as well as to the Local Qualifying Salary for local workers and the wage ceiling under the Progressive Wage Credit Scheme. 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, also made early childhood education more affordable for more families.

Third, the Budget renewed efforts to sustain the upgrading and transformation of the Singapore economy. It included measures to facilitate the green transition, enhance Singapore's R&D ecosystem, upgrade the nationwide broadband network, and build up capabilities in new emerging general-purpose technologies, particularly artificial intelligence. The Budget also sought to support collaborations between larger companies and SMEs, to encourage large firms to impart technical knowledge and competencies to their SME suppliers, and support co-innovation between global industry leaders and local firms.

A basic budget deficit of $6.1 billion (0.8% of GDP) was forecast for FY2024, comparable to the actual FY2023 basic budget deficit of $4.6 billion (0.7% of GDP). A deficit is estimated for the cyclically-adjusted budget balance for CY2024, reflecting a mildly expansionary fiscal stance. Nonetheless, the fiscal stance for CY2024 is estimated to be less expansionary compared to the previous calendar year, indicating a slightly negative fiscal impulse.[2] This was an appropriate degree of policy restraint amid the expected stronger growth in the economy and still elevated inflation.[3]

[2] 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.

[3] Please refer to Section 4.2 of the April 2024 Review for further analysis on the macroeconomic impact of Budget 2024.