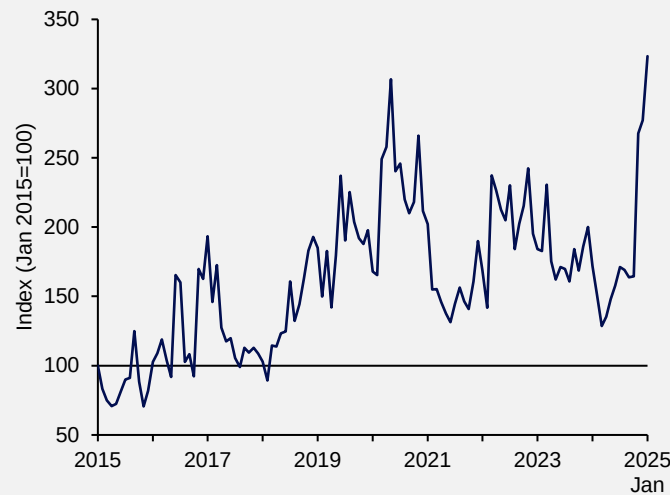


Box A: The Impact of Policy Uncertainty on the Singapore Economy

The Global Economic Policy Uncertainty (GEPU) index (Baker, Bloom, and Davis, 2016) reached an all-time high in early 2025 (**Chart A1**), predominantly reflecting a surge in uncertainty over US trade policy. Apart from the trade-dampening effects of the implemented tariffs itself, uncertainty around the scale, scope and permanence of trade barriers could also impact business and consumer spending. Firms are likely to hold back on their investments due to the increased level of uncertainty (Dixit and Pindyck, 1994), while borrowing costs could also rise with greater risk premia. Meanwhile, households may reduce spending to build up precautionary buffers against potential income shocks. This Box explores the quantitative effects of global policy uncertainty on the Singapore economy.

Chart A1 Global Policy Uncertainty Index



Source: policyuncertainty.com

Structural Vector Autoregression (SVAR) Model

To assess the empirical impact of global policy uncertainty on Singapore's growth, the following SVAR model is estimated from Q2 1998 to Q4 2024:

$$\mathbf{Y}_t = \mathbf{c} + \sum_{i=1}^4 \mathbf{A}_i \mathbf{Y}_{t-i} + \sum_{j=1}^4 \gamma_j \Delta RSF_{t-j} + \sum_{k=1}^3 \lambda_k Q_{k,t} + \mathbf{e}_t$$

The vector $\mathbf{Y}_t$ contains six variables: the GEPU index, the excess bond premium (EBP),¹ global real GDP, and Singapore's private non-residential investment, private consumption and real GDP; all variables except the EBP are expressed in q-o-q percent change terms. Lags of the change in the US three-month interbank rate (RSF) are included as control variables alongside seasonal dummies. A recursive approach is used to identify structural shocks in the order of variables mentioned above. In addition, the coefficients on the lags of domestic

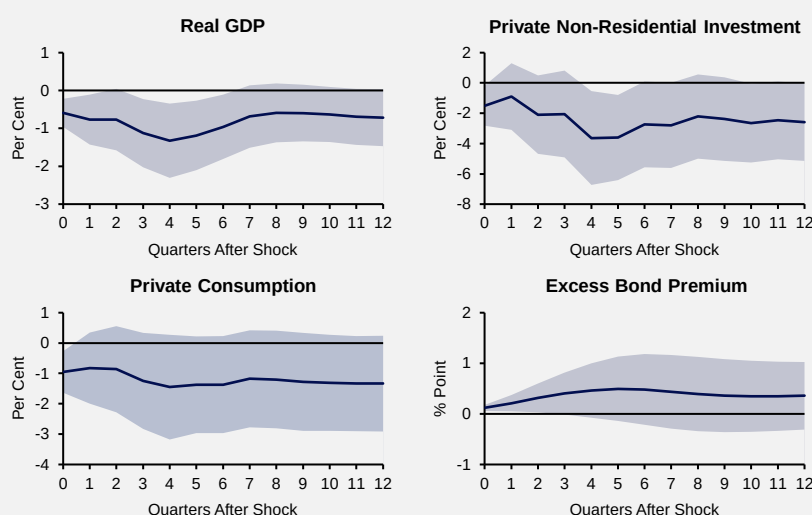
¹ The excess bond premium, developed by Gilchrist and Zakrajšek (2012), was included as a measure of credit conditions.

variables are restricted to zero in the equations of external variables, under the assumption that the Singapore economy has negligible influence on global economic conditions.

Impulse Response Functions

The impulse response functions (IRFs) from the SVAR model indicate that global policy uncertainty has statistically significant adverse impacts on the Singapore economy. In response to a positive one standard deviation (SD) shock to the GEPU index (or a 20.4% increase in uncertainty), private non-residential investment registers a cumulative 3.6% decline after four quarters while private consumption falls 1.5% within the same period (**Chart A2**). Overall, real GDP is 1.3% below baseline a year after the shock—similar to the 1.0% estimated by Luk *et al.* (2017) for Hong Kong but larger than the 0.5% estimated by the European Commission (2024) for the Eurozone.²

Chart A2 Cumulative Responses to A Positive One SD GEPU Shock from the SVAR Model



Source: EPG, MAS estimates

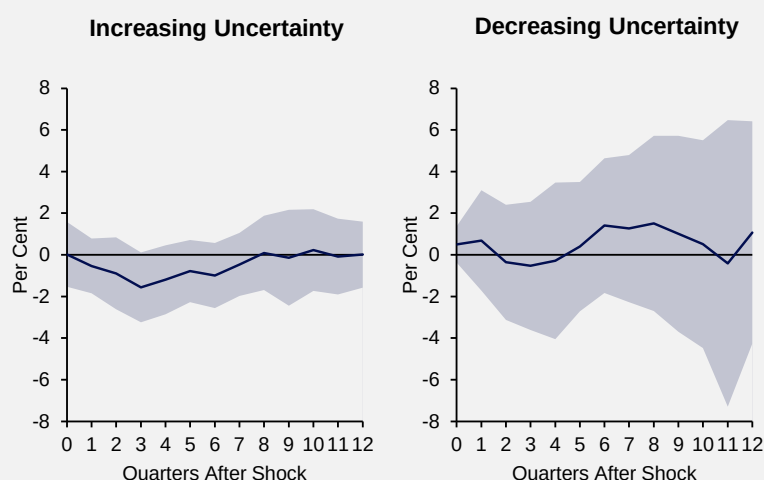
Note: Shaded regions represent the 95% confidence interval.

The increase in the EBP in **Chart A2** indicates that global credit conditions tighten in response to higher global policy uncertainty, in line with findings from other studies (e.g., Caldara *et al.*, 2016). This affects Singapore's GDP and points to the presence of a financial channel through which global policy uncertainty affects real economic activity.

As a robustness check, the IRFs from the SVAR are compared with those from a local projection model (Jordà, 2005) where the dependent real variables are, separately, Singapore's private consumption, private non-residential investment and GDP. The IRFs are similar; in both models, investment is impacted more greatly than consumption, while the impact on Singapore's GDP is greatest four quarters after the shock. Notably, leveraging on the flexibility enabled by the local projection method, there is evidence of an asymmetry in the impact of uncertainty. GDP falls by a meaningful extent after a significant increase in uncertainty but shows no statistically significant response to declines (**Chart A3**).

² Luk *et al.* (2017) and the European Commission (2024) adopt similar SVAR models to estimate the macroeconomic impact of uncertainty shocks on Hong Kong and the Eurozone using country/region-specific Economic Policy Uncertainty indices.

Chart A3 Cumulative Response of GDP to A One SD GEPU Shock: Increasing vs. Decreasing Uncertainty



Source: EPG, MAS estimates

Note: Shaded regions represent the 95% confidence interval. A state-dependent local projections was estimated to allow for asymmetric responses depending on whether uncertainty is increasing or decreasing.

Sum-Up

The analysis in this Box suggests that the sharp rise in global policy uncertainty since late last year will weigh on Singapore's growth. Private non-residential investment is likely to pull back by more than consumption. At the same time, the tightening of global financial conditions could reinforce the drag on real economic activity in Singapore.

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