

1 The International Economy

- The global recovery was set back in Q4 2020 and Q1 this year, due to a resurgence in COVID-19 infections and the attendant disruption in economic activity. The strong and synchronous global rebound observed in Q3 2020 has given way to greater cross-country divergence in growth.
 - However, the recovery momentum should be regained over the rest of 2021 as substantial policy stimulus flows through and vaccination programmes allow the progressive reopening of borders. Business and consumer sentiment surveys have signalled strong confidence in the year ahead, while trade and manufacturing activity is strengthening further. The global economy is projected to reach its end-2019 level of output by Q2 2021 and expand by 6.2% for the year as a whole.
 - While the central projections for the growth outlook have improved, the pandemic continues to present significant uncertainties to the global economy's path to normalisation. At the same time, the possibility of a quicker recovery has tilted the balance of risks towards an earlier and stronger pickup in prices. However, the considerable degree of economic slack remaining would cap the extent of the upsides to inflation.
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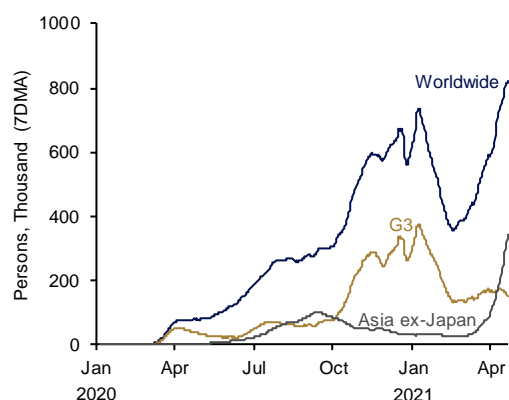
1.1 Global Economy

The global recovery has been set back in the near term by a renewed rise in COVID-19 cases

Global economic activity remains susceptible to the evolution of the COVID-19 pandemic. The global economy experienced a strong and synchronous rebound in Q3 2020, expanding by 7.2% q-o-q SA,¹ as the containment of the first wave of infections in Q2 allowed a partial relaxation of mobility restrictions (**Chart 1.1**). However, a renewed increase in infections in a widening set of countries from the end of Q3 had prompted many governments to re-tighten public health measures, inducing a slowdown in global growth to 1.8% q-o-q SA in Q4. The world economy contracted by 3.1% in 2020 overall.

The highly uneven incidence of infections, coupled with varied public health responses, has driven a widening cross-country disparity in economic outturns (**Chart 1.2**). In Q4 2020, those countries experiencing limited increases in infections saw smaller pullbacks in growth. This group included most Asian economies. Other countries experienced much sharper rises in COVID-19 cases and more abrupt slowdowns in activity. Some of the hardest-hit economies, including the Eurozone, Malaysia and the UK, fell back into contraction.

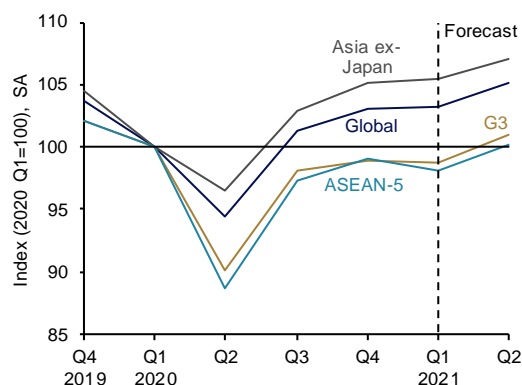
¹ All regional and global aggregates are weighted by country shares in Singapore's NODX, unless otherwise stated.

Chart 1.1 Global COVID-19 infections have surged again ...New COVID-19 infections²

Source: WHO and EPG, MAS estimates

Chart 1.2 ... and the recovery is uneven across countries

Quarterly GDP



Source: Haver Analytics and EPG, MAS estimates

The COVID-19 shock has also induced sectoral divergence within economies. Services are more likely to depend on interpersonal contact or mobility, and so have proved more susceptible to disruption from public health measures. In comparison, the demand for goods has been substantially more resilient. For example, in the US, output of services was still 2.6% below its Q4 2019 level in Q4 2020, whereas manufacturing output was only 0.1% lower. A similar decoupling was observed in the Eurozone, where services output remained 6.0% below the Q4 2019 level in Q4 2020, while manufacturing output was 2.3% lower. The sectoral differences were also apparent from the divergence in the performances of manufacturing and services PMIs (**Chart 1.3**).

The hit to services activity from the pandemic, compared with demand for goods, is also evident in the relative resilience of international trade. This reflects the fact that goods account for about three-quarters of international trade, against about a quarter for services. The volume of world goods trade surpassed its end-2019 level in November 2020, while global GDP is projected to recapture its end-2019 level only in Q2 2021. Global trade volumes continued to strengthen in early 2021, rising by 2.9% in the three months to February compared to the preceding three months (seasonally-adjusted) despite instances of supply disruptions, including global shipping bottlenecks and semiconductor shortages.³ The resilience of trade has underpinned activity in a number of open, export-oriented Asian economies.

Fiscal and monetary authorities around the world had collectively loosened macroeconomic policies over the course of 2020. Governments provided a combined global fiscal impulse of 5.8% of GDP in 2020, compared with just 1.8% in 2009, according to IMF estimates.⁴ Central banks lowered policy rates, expanded their balance sheets, and deployed an array of regulatory and credit support measures. However, the amount of support provided

² The G3 grouping refers to the Eurozone, Japan and the US, while Asia ex-Japan refers to China, Hong Kong SAR, India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan, Thailand and Vietnam.

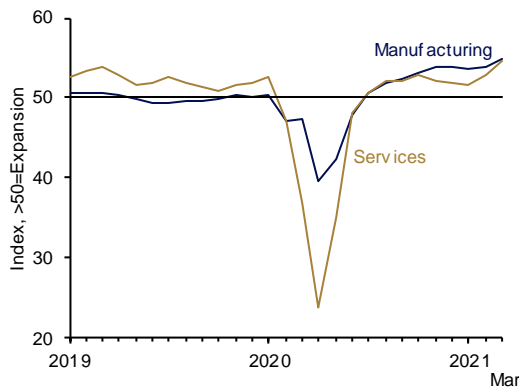
³ CPB Netherlands Bureau for Economic Policy Analysis World Trade Monitor.

⁴ IMF (2021), "Fiscal Monitor: A Fair Shot", April 7.

has varied widely across countries, with the major AEs implementing more aggressive stimulus, compared to EMs (**Chart 1.4**).

Chart 1.3 The strength of activity diverged across sectors

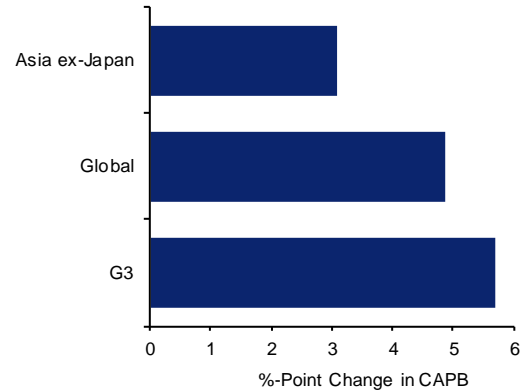
Global manufacturing and services PMI



Source: IHS Markit

Chart 1.4 AEs introduced more aggressive fiscal stimulus

Weighted average fiscal impulse in 2020



Source: IMF Fiscal Monitor and EPG, MAS estimates

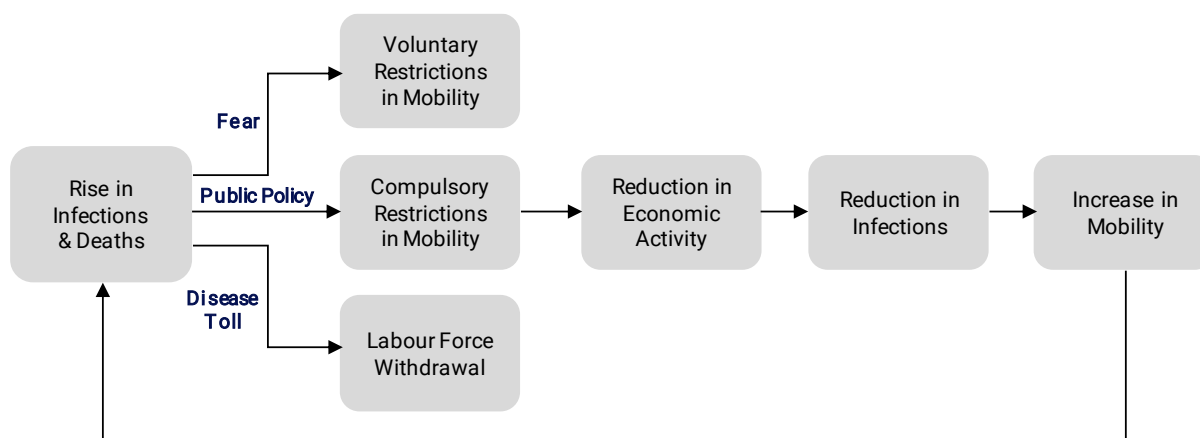
Note: Asia ex-Japan excludes Taiwan and Vietnam as data is not available. The global aggregate is estimated by EPG, MAS and includes G3 and Asia ex-Japan economies. Aggregates are computed by weighting the change (2019 vs 2020) in the general government cyclically-adjusted primary balance (CAPB) (as % of potential GDP) by countries' nominal GDP.

The impact of stringent public health measures on mobility and economic activity has fallen over time

The COVID-19 pandemic has resulted in a large contraction in global economic activity. Fear of infection has led individuals to disengage from social activities, causing severe reduction in the demand for services. This voluntary withdrawal from social activities has been reinforced by government-imposed restrictions to mobility. Infected workers and their families are also removed temporarily from the labour force, further depressing economic activity.

Social distancing measures reduce the transmission of the virus, but in many cases the suppression has only been temporary. Governments eventually relax the stringency of social distancing measures, individuals return to public places, and economic activity picks up again (**Figure 1.1**). In many countries where reopening has been premature, subsequent waves of COVID-19 cases have occurred, leading to renewed reductions in mobility and economic contractions.

Figure 1.1 Ebb and flow of COVID-19 outbreaks, public health measures and economic activity



Source: EPG, MAS

Over time, as this process repeats and governments, firms and individuals accumulate experience about how to operate under the pandemic, it might be expected that the relationship between the response to COVID-19 and economic activity would become more muted.

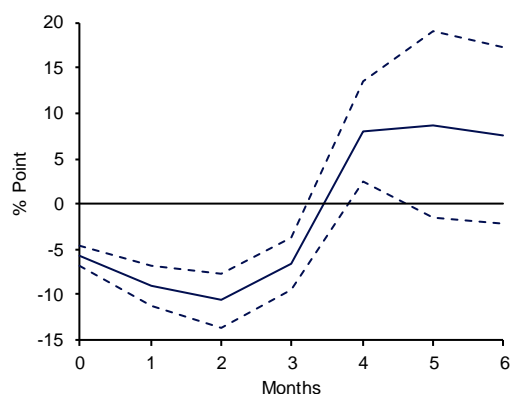
This question was addressed through a detailed exploration of the ebb and flow of the pandemic and economic activity across countries. The variables examined were per capita COVID-19 infections, GDP, industrial production, mobility indices from Google, and the “stringency index” from the Oxford Coronavirus Government Response Tracker, which records the strictness of public health measures that primarily restrict people’s mobility. The impulse responses of mobility and industrial production to a one standard deviation shock in monthly COVID-19 cases per capita were estimated using local linear projections.⁵

First, the impulse response analysis shows that a shock from COVID-19 cases has a significant effect on mobility, but the impact fades after three to four months (**Chart 1.5**). This time frame roughly matches the average length of stringent lockdown policies and the strong recovery in mobility in some countries in the summer of 2020 after the lifting of the first wave of restrictions. The data further suggest that government-mandated restrictions to movement have become more targeted as the pandemic progressed. Between Q2 and Q4 2020, there were reductions in the degree of stringency of social distance measures mandated by governments. However, for each level of stringency, mobility was higher in Q4 than in Q2 (**Chart 1.6**).

⁵ The method of local linear projections was used to estimate the effect of a shock on a variable of interest n periods ahead. The impulse response functions were calculated by comparing the forecast for the variable of interest n periods ahead, with and without the shock occurring.

Chart 1.5 The impact of a rise in COVID-19 cases on mobility fades after four months

Mobility response to a rise in COVID-19 cases

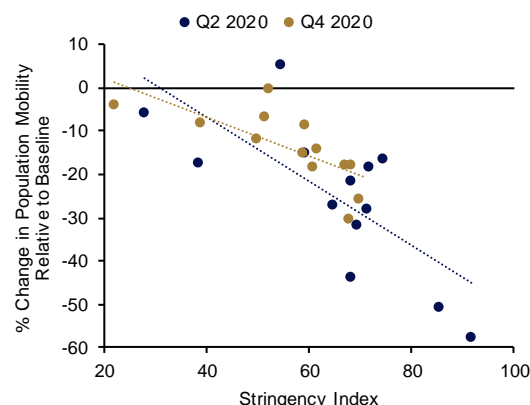


Source: Google Community Mobility Reports, Johns Hopkins University Center for Systems Science and Engineering, and EPG, MAS estimates

Note: Solid line represents the mean estimate, while dashed lines represent 90% confidence interval bounds.

Chart 1.6 The effect of public health measures on mobility has weakened

Mobility and stringency of public health measures



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

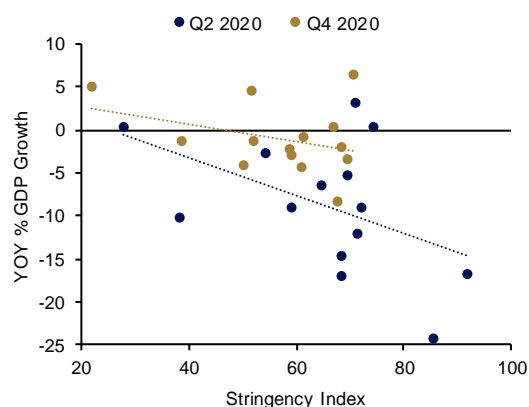
Note: The baseline for population mobility index is the median value for the corresponding day of the week during the five-week period from 3 Jan–6 Feb 2020.

Next, the analysis shows that the negative correlation between mobility restrictions and economic activity has weakened over time. In Q2 2020, countries with the most restrictive public health measures experienced a sharper fall in output. In Q4, mobility restrictions were still associated with slower growth, but the correlation had come down (**Chart 1.7**). Accordingly, countries have been able to fight second and third waves with less severe disruptions to economic activity; output contractions in Q4 2020 were of lesser magnitudes compared to those observed in Q2 2020.

Finally, the impulse responses underscore the evidence from activity data that industrial production (IP) has been relatively resilient to the incidence of the virus. A one standard deviation shock to COVID-19 cases per capita reduces IP by about 7.8% after three months, with the impact dissipating after six months (**Chart 1.8**).

Chart 1.7 The negative growth impact of mobility restrictions has declined

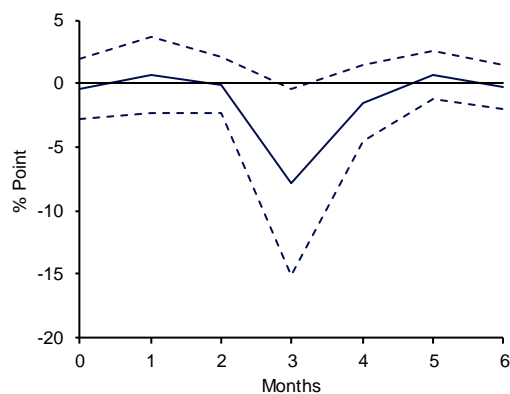
GDP growth vs stringency of public health measures



Source: Oxford Blavatnik School of Government, Haver Analytics and EPG, MAS estimates

Chart 1.8 The sensitivity of industrial production to COVID-19 waves fades after about six months

Average cumulative response of industrial production to a rise in COVID-19 cases



Source: Haver Analytics, Johns Hopkins University Center for Systems Science and Engineering, and EPG, MAS estimates

Note: Solid line represents the mean estimate, while dashed lines represent 90% confidence interval bounds.

Substantial policy stimulus and progress on vaccinations support recovery prospects

The main factors that shaped the economic landscape in 2020 remained dominant in early 2021. An overall rise in infections, accompanied by variations in the virulence of the pandemic and in the degree of policy support, continued to drive growth divergences around a weakening global mean (**Table 1.1**). The global economy is estimated to have slowed to a near-standstill in Q1 2021, with several economies expected to have contracted due to re-tightening of mobility restrictions. Set against this weak backdrop, the economies of China and Vietnam stood out in contrast, posting firm growth of 0.6% and 0.7% q-o-q SA respectively in Q1.

Table 1.1 Global GDP growth, NODX-weighted

	QOQ SA (%)			Annual (%)		
	2020 Q4	2021 Q1*	2021 Q2*	2020	2021*	2022*
G3	0.8	-0.2	2.3	-5.1	5.2	4.0
Asia ex-Japan	2.2	0.3	1.6	-2.2	6.8	5.0
ASEAN-5	1.9	-1.0	2.1	-4.3	5.3	6.0
Global	1.8	0.1	1.8	-3.1	6.2	4.7

Source: Haver Analytics and EPG, MAS estimates

Note: The G3 grouping refers to the Eurozone, Japan and the US, while the ASEAN-5 are 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

Despite the further setback in Q1, the global economy is projected to regain its end-2019 level of output by Q2 2021 and expand by 6.2% for the year as a whole. The anticipated

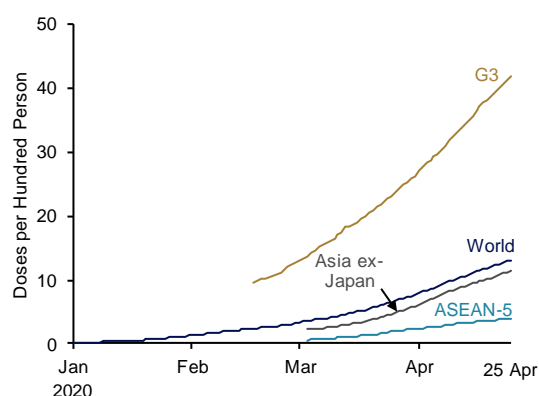
buoyancy of full-year 2021 growth is driven by two key factors. First, several economies, most prominently the US, have announced substantial additional fiscal stimulus to take effect this year. In April, the IMF revised its estimate of the global fiscal impulse⁶ to +0.2% for 2021, compared to a negative impulse of 3.9% expected last October.

Second, global vaccination programmes have proceeded more rapidly than previously hoped, albeit with high variation between countries (**Chart 1.9**). Most AEs are expected to reach vaccination coverages that could effectively suppress domestic transmission by Q3 2021. Most of the Asia ex-Japan economies are likely to take until 2022 to reach this stage, although the more measured pace of vaccination in some Asian countries in part reflects already very low rates of domestic virus transmission. The rollout of vaccinations increases the likelihood that the recovery in the global economy can proceed more concertedly after the current wave of infections has been contained.

The combination of vaccine deployment and further policy support has been associated with a marked improvement in business and consumer confidence in the near- to medium-term outlook. Sentiment surveys point to strong confidence in prospects six to twelve months ahead; the global composite PMI future output sub-index was 67.7 in March 2021, compared with 64.5 in December 2020; the sub-index averaged 61.5 in 2018–19 (**Chart 1.10**).

Chart 1.9 Progress of vaccination is faster in AEs

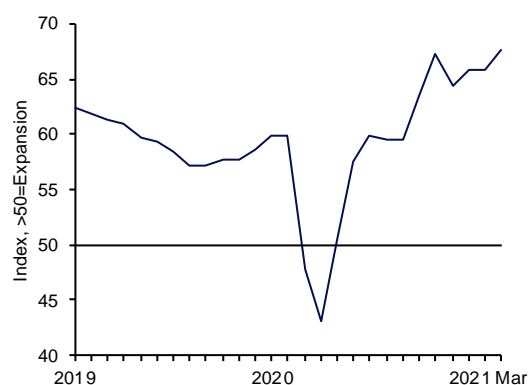
Total vaccine doses administered



Source: Haver Analytics and EPG, MAS estimates

Chart 1.10 Business confidence continues to improve

Global PMI: Composite future output



Source: Haver Analytics and EPG, MAS estimates

The latest forecasts imply that the negative global output gap will close towards the end of 2021 (**Chart 1.11**), but the aggregate masks considerable divergence. By Q4 2021, output gaps are expected to have closed in the G3 in aggregate. However, negative output gaps are expected to persist well into 2022 in some Asia ex-Japan economies.

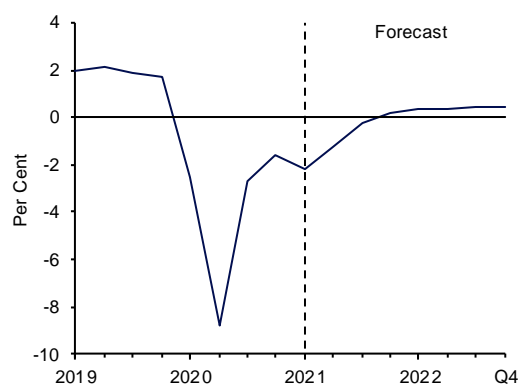
Global real GDP is expected to be about 2% lower by the end of 2022 compared to the pre-pandemic forecast. However, this shortfall is concentrated in the Asia ex-Japan economies, where the level of real GDP is forecast to be about 3.2% lower by end-2022 than expected before the pandemic. By contrast, the G3 economies' GDP is expected to be about

⁶ The global fiscal impulse was computed by weighting the change in cyclically-adjusted general government primary balance (CAPB, 2020 vs 2021) by nominal GDP for Singapore's main trading partners.

0.8% higher in aggregate. The size of expected output shortfalls is broadly correlated with the magnitude of policy support (**Chart 1.12**).

Chart 1.11 The gap between actual and potential global GDP is expected to close by end-2021

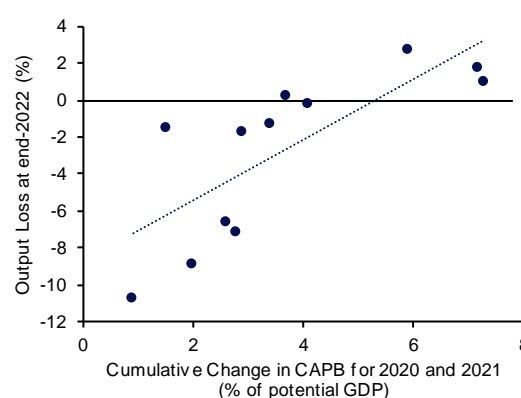
Global output gap (% of potential GDP)



Source: EPG, MAS estimates using the GPM-MAS model

Chart 1.12 Larger fiscal stimulus tends to contribute to faster recovery

Output loss and the fiscal impulse



Source: IMF Fiscal Monitor and EPG, MAS estimates

Global headline CPI inflation is projected to rise to 2.2% in 2021 from 0.7% in 2020, driven by three main factors.⁷ First, year-ago inflation rates will be boosted by a low base into Q2 2021. There were disinflationary effects from the mild global slowdown in 2019 and the sharp collapse in activity in March and April 2020. Second, commodity prices have risen endogenously to the broader recovery, reinforced by supply dynamics for some products, importantly including the policies of major oil producing nations. According to the World Bank, as at March 2021, global energy prices had risen by 172% from their April 2020 lows, metal and mineral prices by 68%, and food prices by 33%.⁸ Third, the progressive narrowing of the negative global output gap is expected to support core inflation rates. Inflation is projected to remain at 2.2% in 2022 as a stabilisation in commodity prices and the dropping-out of base effects are offset by a further modest pickup in core inflation.

The strengthening baseline outlook is accompanied by heightened uncertainty and a shift in the distribution and nature of risk

The pandemic continues to pose significant risks to the global outlook. As of 26 April, the seven-day average of daily new cases globally was over 820,000, up from 380,000 at end-February, with public health measures being tightened again in some jurisdictions. There is also considerable uncertainty around the speed and efficacy of vaccination programmes. Vaccine effectiveness and hence infection rates could be affected if new virus variants emerge that are more contagious and/or resistant to existing vaccines.

Nevertheless, the strengthening global economic outlook entails a slight shift in the balance of risks. The impact of the pandemic on economies' supply potential remains unclear, widening the confidence interval attached to output gap estimates. Inflation could thus overshoot forecasts if output gaps turn positive earlier or to a much greater degree than

⁷ The reported measure of inflation excludes Chinese pork prices which can significantly affect the NODX-weighted global aggregate.

⁸ <https://www.worldbank.org/en/research/commodity-markets>

currently expected. Moreover, the force of the fiscal multipliers from the large stimulus packages in many economies could be significant albeit subject to considerable uncertainty. In the same vein, the extent of the drawdown of elevated savings accrued by households in many economies poses potential inflation risks.

However, while the risk that inflation could overshoot for a short period is significant, that of persistently higher inflationary pressures over the medium term is assessed to be lower. Fiscal impulses will turn negative in a broadening set of economies over 2021. In AEs and many EMs, independent central banks and credible inflation targeting frameworks have anchored inflation expectations and kept them stable.

Conversely, inflation could be lower than expected if downside risks to the growth outlook materialise. The erosion of monetary and (to some extent) fiscal policy space since the onset of the pandemic would make it challenging for authorities to respond sufficiently, increasing the risk that a persistent inflation undershoot could become permanently embedded in household and business inflation expectations.

Authorities' discretion in employing their remaining policy space could be constrained if market conditions deteriorate. Pandemic-related measures have contributed to a significant rise in public debt in both AEs and EMs. AE debt increased by 16% points to 120% of GDP in 2020, while EM debt (excluding low income countries) was up 10% points to 64% of GDP.⁹ Any tightening in financial conditions may compel authorities to begin policy normalisation earlier than warranted, at a time when the domestic recovery from the pandemic remains incomplete. EM economies with higher external funding needs may be particularly exposed in this regard.

The global outlook remains subject to a range of geopolitical risks. Tensions among major global economies over the terms of access to each other's markets were already in evidence before the onset of the pandemic. Policy actions stemming from these tensions, including changes in tariffs and other regulations, had a discernible negative impact on trade, business confidence and investment in 2018–19. The underlying issues remain substantially unresolved, and could lead to renewed uncertainty, exerting additional drags on confidence and activity, if governments re-intensify such engagement after the pandemic recedes.

⁹ IMF (2021), "Fiscal Monitor: A Fair Shot", April 7.

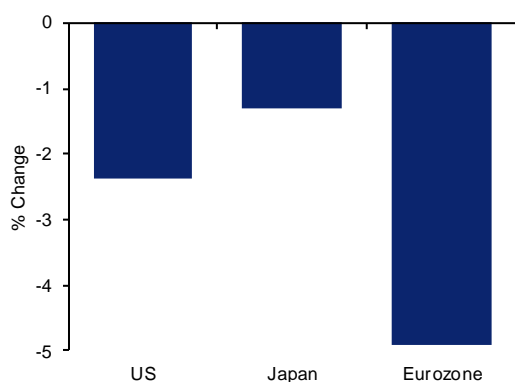
1.2 The G3 Economies

The strong recovery in demand is expected to drive an increase in business investment

Output in the G3 rebounded by 3.7% in H2 2020, following a 7.0% contraction in H1, taking full-year growth to -5.1%. However, the pace of recovery across the G3 economies has been uneven (**Chart 1.13**). This divergence is being driven by differences in the prevalence of COVID-19 and in the stringency of public health measures. In particular, the escalation in infections in some Eurozone countries, and attendant tightening in movement restrictions in Q4 2020 induced a sequential output contraction of 0.7% q-o-q SA (**Chart 1.14**). By end-2020, the level of GDP in the Eurozone was still 4.9% below its end-2019 level. In comparison, output in the US and Japan saw smaller shortfalls of 2.4% and 1.3% relative to end-2019 levels, as both economies recorded moderate expansions in Q4.

Chart 1.13 The pace of recovery in the G3 has been uneven

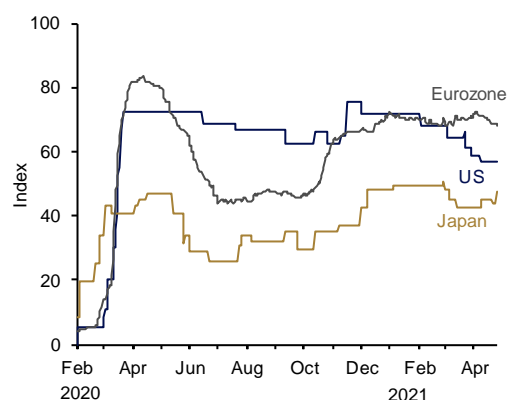
Shortfall in GDP level at end-2020 compared to end-2019



Source: Haver Analytics

Chart 1.14 Movement restrictions were tightened in Q4 2020

Index of virus containment stringency



Source: Oxford University Blavatnik School of Government

The pandemic is set to remain an important factor determining economic outcomes into the middle of the year. Infection rates increased in Q1 in some Eurozone countries and in Japan (**Chart 1.15**), prompting authorities to reimpose public health measures until at least the middle of the second quarter. Conversely, the spread of the virus has been more contained in the US, and movement restrictions have been eased from early this year to their lowest level since mid-March 2020.

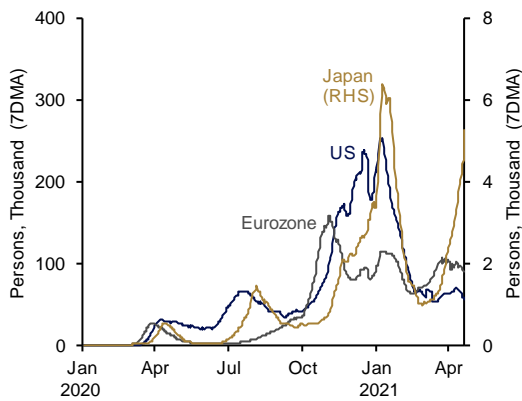
The G3 countries are expected to have vaccinated a sufficient proportion of their populations by Q3 2021 and reach a low enough level of domestic transmission that widespread movement restrictions will no longer be required. This will allow the G3 economies in aggregate to recover in the second half of the year. The G3 is projected to recoup its end-2019 GDP level by Q3 2021, one quarter later than the global economy as a whole; by the end of 2021, G3 aggregate GDP is forecast to be 2.1% higher than at end-2019.

It is likely that the sectoral composition of the recovery will be tilted towards services, as patterns of household demand begin to normalise and rebalance from the virus-induced

changes observed in 2020. Forward-looking indicators for the services sector suggest businesses are looking ahead to a stronger rebound later this year. The G3 services PMIs indicate that firms are optimistic about prospects in the next twelve months, even as current services activity remains subdued (**Chart 1.16**).

Chart 1.15 Eurozone and Japan are experiencing another resurgence in infections

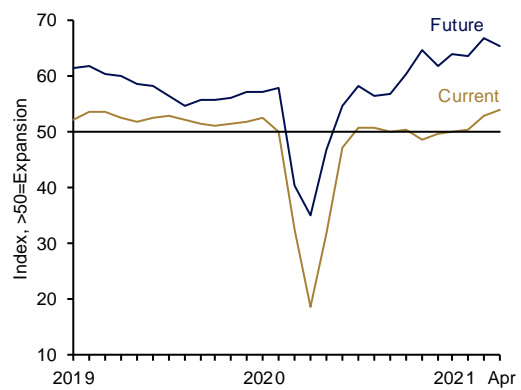
New COVID-19 infections



Source: Haver Analytics and EPG, MAS estimates

Chart 1.16 PMIs are pointing to stronger services output over the next twelve months

G3 services PMI (NODX-weighted)

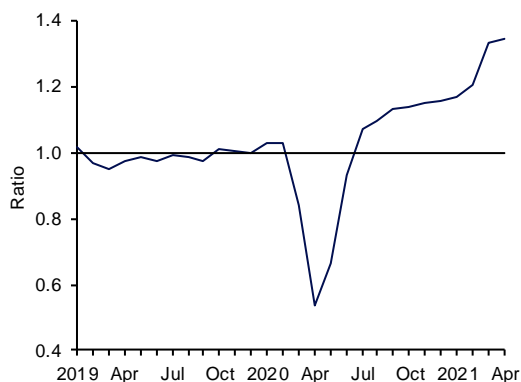


Source: Haver Analytics and EPG, MAS estimates

The outlook for manufacturing is also strong. PMI sub-indices indicate strengthening new orders and declining stocks of finished goods across the G3, implying that the inventory cycle should support manufacturing in the coming months (**Chart 1.17**). The difference between the sub-indices for new orders and stocks of finished goods in the G3 PMIs, a leading indicator of future production, is currently at its widest level since the data became available in May 2007.

Chart 1.17 A stockbuilding cycle will support manufacturing output in the short term

G3 PMI new orders to stocks of finished goods ratio (NODX-weighted)

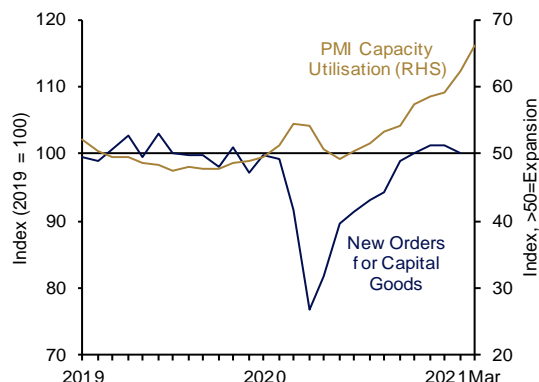


Source: IHS Markit and EPG, MAS estimates

Note: Indices are weighted by country shares in Singapore's NODX.

Chart 1.18 Capex is rising alongside tightening capacity utilisation

G3 PMI capacity utilisation and new orders for capital goods (NODX-weighted)



Source: Haver Analytics, IHS Markit and EPG, MAS estimates

The buoyant outlook for manufacturing is also being driven by rising new orders for capital goods, which in turn is consistent with high reported rates of capacity utilisation (**Chart 1.18**). (The recent decline observed in February 2021 was driven by Japan and is likely to be a temporary reaction to the extension of the state of emergency.) Capex in the G3 should pick up further in the coming months. The Tankan survey showed that Japanese firms plan to increase capex by 0.5% y-o-y for 2021, the first indication of increase in the March survey for the past 20 years. Regional surveys by the US Federal Reserve also show that US manufacturers' six-month-ahead capex intentions improved to 26.3 in March, compared to an average of 15.6 in 2010, during the post-GFC recovery.

The broad-based strength of the outlook reflects in large part the degree of global policy support that is unprecedented outside of wartime. IMF estimates suggest that the G3 fiscal impulse was 5.7% of potential GDP in 2020. The impulse is estimated to fall to 0.4% of potential GDP in 2021, albeit with further significant loosening in the US. G3 central banks reduced or kept their policy rates to very low levels in 2020, while expanding their balance sheets by 22% points of their aggregate GDP. Monetary policy settings are likely to remain highly accommodative at least throughout 2021.

Aggressive policy support and a pickup in economic activity have succeeded in largely reversing the downshift in inflation expectations triggered by the onset of the pandemic (**Chart 1.19**). Nonetheless, they remain either in line with central bank targets¹⁰, or below them. Headline inflation rates on a year-ago basis will be supported well into 2021 by low bases and the recent recovery in commodity prices. The deployment of policy support has shifted the balance of risks towards an earlier and stronger pickup in prices. However, the fiscal stance across the G3 is not expected to remain strongly expansionary in the medium term.

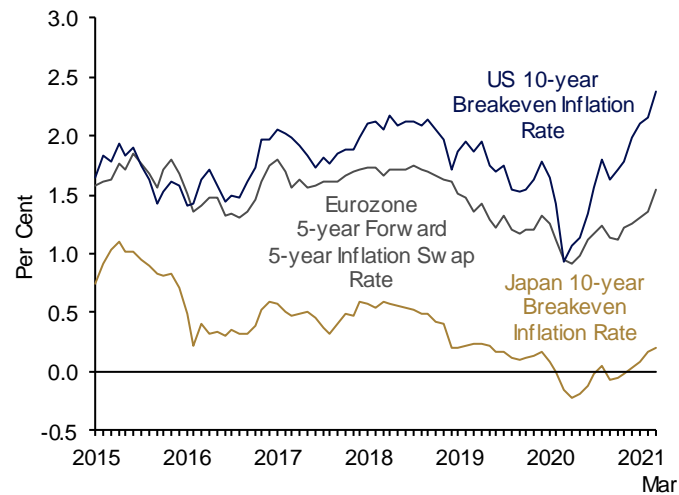
¹⁰ In August 2020, the US Federal Reserve shifted to a flexible average inflation targeting strategy, by which it seeks to achieve inflation that averages 2% over time.

Accordingly, the level of output in the G3 economies as a whole is not expected to run strongly above potential for a sustained period.

All considered, the G3 is projected to expand by 5.2% in 2021, before easing to 4.0% in 2022.

Chart 1.19 Inflation expectations in the G3 have remained contained so far

G3 breakeven inflation rates and forward swap rates



Source: Bloomberg

Note: The breakeven inflation rate is the difference between the yield of a nominal bond and an inflation-linked bond of a similar maturity.

1.3 Asia ex-Japan

Resurgent infections have set back the regional economic recovery

Asia ex-Japan's economic contraction in 2020 at -2.2% was less severe compared to the global economy. The less negative outcome for the region reflected three main factors.

First, the economic impact of the pandemic in China, and its subsequent recovery, occurred one quarter ahead of the other major economies. China's GDP contracted by 9.3% q-o-q SA in Q1 2020 but resumed expansion in Q2 (10.1% q-o-q SA). China's early rebound directly boosted regional growth, given close trade linkages and integrated supply chains.

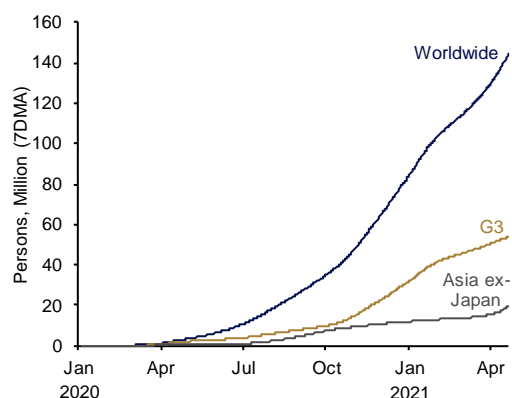
Second, the COVID-19 outbreak was contained at a relatively early stage in many countries in the region (**Chart 1.20**), which limited the stringency of domestic movement restrictions and severity of economic disruptions.

Third, the region's open economies were able to meet resilient global merchandise demand with an earlier recovery in supply capacity. Rapid containment of infections in several the region's economies that are deeply integrated into global supply chains allowed them first to restore and then to expand production more rapidly than the rest of the world (**Chart 1.21**).

To be sure, the regional aggregates mask considerable cross-country variation in performance. Some countries including India, Indonesia, the Philippines, and Malaysia have been hit with much more widespread and pernicious COVID-19 outbreaks, and accordingly sustained greater domestic economic disruption. The prolonged stoppage of cross-border leisure travel has also held back the region's more tourism-reliant economies, including Thailand.

Chart 1.20 The pandemic has been relatively well-contained in Asia ex-Japan

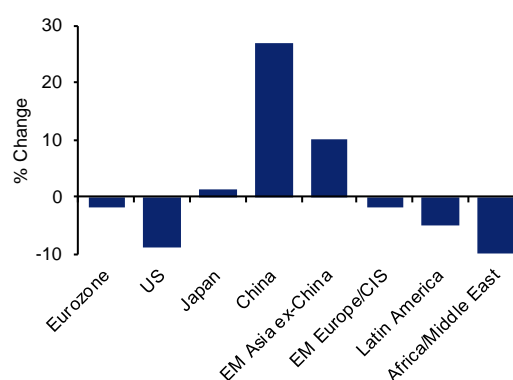
Seven-day moving average of cumulative COVID-19 cases



Source: CEIC, WHO and EPG, MAS estimates

Chart 1.21 Asia has led the global merchandise trade recovery

Change in goods export volumes, February 2021 vs December 2019



Source: CPB Netherlands Bureau for Economic Policy Analysis and EPG, MAS estimates

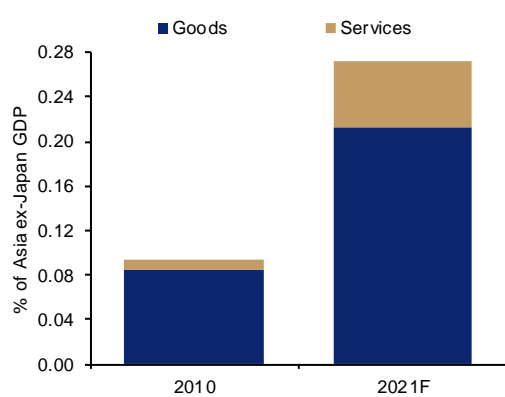
Note: EM Asia comprises China, Hong Kong SAR, India, Indonesia, South Korea, Malaysia, Pakistan, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

Asia ex-Japan's margin of outperformance is expected to narrow

The global economic recovery is expected to boost regional exports as 2021 progresses. While there is likely to be some rebalancing of global demand towards services as countries progressively ease public health measures, a projected pickup in growth, particularly in the US, suggests Asian merchandise exporters will benefit from a further uplift this year (**Chart 1.22**). At the same time, the new export orders sub-indices in regional manufacturing PMIs have begun to rise, with much stronger readings in the heavily electronics-driven economies of Korea and Taiwan (NEA-2) (**Chart 1.23**).

Chart 1.22 Strengthening US demand will provide a substantial tailwind

Impact of US consumption growth on Asia ex-Japan

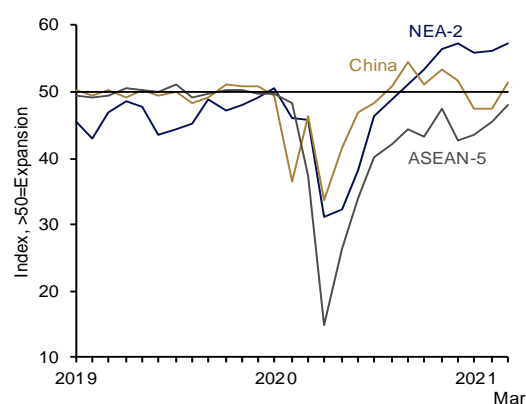


Source: Haver Analytics, OECD TiVA and EPG, MAS estimates

Note: The estimates are obtained by applying shares of VA sourced by country in US final demand on projections of changes in US private consumption expenditure.

Chart 1.23 Manufacturing PMIs signal a further recovery in exports

Manufacturing PMI new export orders sub-indices



Source: IHS Markit and EPG, MAS estimates

Note: Indices for the ASEAN-5 and NEA-2 are weighted by country shares in Singapore's NODX.

The prevalence of COVID-19 infections remains low across the region on average, although with significant cross-country variation. Overall, those economies benefiting from the strength of global trade through participation in cross-border supply chains are also those with lower COVID-19 infection rates, contributing to the divergence of regional economic outturns (**Chart 1.24**).

However, recovery prospects in Asia ex-Japan are expected to become less favourable relative to the AEs as the year progresses and into 2022. First, the region's countries are mostly expected to take longer than the AEs to vaccinate their populations, leaving them vulnerable to the risk of further outbreaks. Economies in Asia ex-Japan had administered 11.5 vaccine doses for every 100 people as at 25 April, compared to 68.1 doses in the UK, 68.4 in the US, and 29.4 in the Eurozone. Available data on vaccination programmes across the region suggest some countries will not achieve herd immunity by this year.

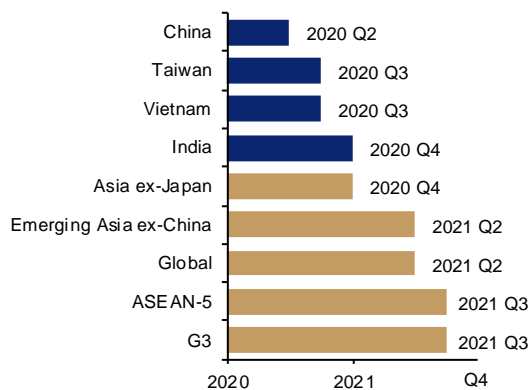
Second, global financial conditions are likely to tighten as the recovery progresses, as financial markets begin to anticipate a withdrawal of monetary accommodation. The recent rise in government bond yields of many major economies has been accompanied by a moderation in the pace of capital flows into Asian emerging markets (**Chart 1.25**). Asia ex-Japan economies with larger external financing needs and/or rising inflationary pressures may face a worsening trade-off between internal and external balance, potentially

constraining their policy space. Near-term growth trajectories will depend in part on the extent of these policy constraints amid elevated public debt levels and tightening global financial conditions.

All in, economic output in Asia ex-Japan is expected to expand by 6.8% in 2021, after contracting by 2.2% in 2020.

Chart 1.24 The pace of recovery will vary across countries and regions

Quarter in which economies recover to Q4 2019 GDP level

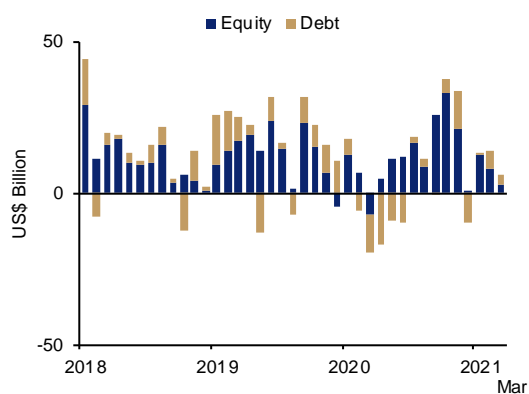


Source: Haver Analytics and EPG, MAS estimates

Note: Emerging Asia refers to the Asia ex-Japan grouping. Historical data is used for China, Taiwan, Vietnam and India, while regional aggregates are EPG, MAS forecasts.

Chart 1.25 EM Asia portfolio inflows have moderated

EM Asia net portfolio flows



Source: Institute of International Finance