RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

9 March 2018

	2017				
	Q1	Q2	Q3	Q4	Full Year
Real Sector					
Real GDP Growth, y-o-y %	2.5	2.8	5.5	3.6	3.6
Real GDP Growth, q-o-q saar %	–1.5	2.8	11.2	2.1	-
Index of Industrial Production, y-o-y %	8.5	8.4	19.1	5.0	10.1
Non-oil Domestic Exports, y-o-y %	15.0	3.0	7.6	10.4	8.8

Domestic economic activity maintained positive growth momentum in Q4 2017, after a double-digit surge in the previous quarter

While the enduring upturn in the global IT cycle continued to lift the electronics trade-related segments in Q4, transitory weakness in the non-IT related sectors dampened growth. In contrast, modern services registered broad-based gains as business and investment sentiments improved both domestically and in the region. Expansions in healthcare facilities supported growth in the domestic-oriented sectors.

Global GDP growth dipped in Q4 2017, but the synchronous expansion stayed intact

A pickup in G3 economic activity lifted last year's global growth to its best performance since 2011, despite a slight pullback in Q4. The attendant expansion in world trade provided a strong impetus to the Asian economies, aided by resilient growth in China. The cyclical upswing in the global economy will continue in 2018, albeit at a more tempered pace.

Singapore's economic growth is forecast to moderate in 2018, from the better-than-expected outcome in 2017

GDP growth is expected to come in slightly above the mid-point of the "1.5 to 3.5%" forecast range in 2018. The moderation from the strong 3.6% recorded in 2017 reflects the still-firm but attenuated global demand for electronics and precision engineering products, which is expected to translate to slower growth in the trade-related sectors. Meanwhile, a recovery in both corporate and consumer sentiments will help buttress growth in modern and domestic-oriented services, even as weakness in private construction activity persists.

Inflation is expected to be relatively restrained in the near term

MAS Core Inflation averaged 1.5% y-o-y in 2017 and is expected to stay in the 1–2% range in 2018. CPI-All Items inflation came in at 0.6% in 2017 and is projected to similarly average 0–1% this year.

A. External Developments

Global GDP Growth

	2017		2017	Consensus Forecast	
	Q3	Q4		2018	2019
	q-o-q SAAR %		y-o-y %		
G3*	**2.8**	**2.3**	**2.2**	**2.3**	**1.9**
US	3.2	2.5	2.3	2.8	2.4
Eurozone	2.8	2.4	2.3	2.3	1.9
Japan	2.4	1.6	1.7	1.4	1.1
	y-o-y %				
Asia ex-Japan*	**5.5**	**5.4**	**5.4**	**5.1**	**5.0**
China	6.8	6.8	6.9	6.5	6.3
India**	6.5	7.2	6.6	7.3	7.6
NEA-3*	**3.6**	**3.3**	**3.4**	**2.8**	**2.5**
Hong Kong	3.7	3.4	3.8	2.9	2.6
Korea	3.8	3.0	3.1	3.0	2.8
Taiwan	3.2	3.3	2.9	2.6	2.2
Asean-4*	**5.6**	**5.4**	**5.3**	**5.2**	**5.1**
Indonesia	5.1	5.2	5.1	5.3	5.4
Malaysia	6.2	5.9	5.9	5.3	5.1
Thailand	4.3	4.0	3.9	3.9	3.7
Philippines	7.0	6.6	6.7	6.5	6.5

Source: CEIC and Consensus Economics, February 2018
* Weighted by shares in Singapore's NODX.
** Figures are reported on a Financial Year basis; FY2017 refers to the period from April 2017 to March 2018.

Cyclical conditions remain favourable at the start of 2018

GDP growth in the advanced economies moderated in Q4 2017, although the underlying momentum remained firm, underpinned by robust domestic demand expansions. This held up global trade flows which in turn, supported economic activity in Asia. **Cyclical indicators point to continued strength in the global economic upturn into early 2018.** Labour markets in the major advanced economies have improved further, which will sustain household spending. Global PMI indices are still at elevated levels, although recent readings point to a levelling-off in manufacturing activity in some countries.

In the G3 economies, projected growth has been revised up to 2.3% for 2018, before moderating to 1.9% in 2019.

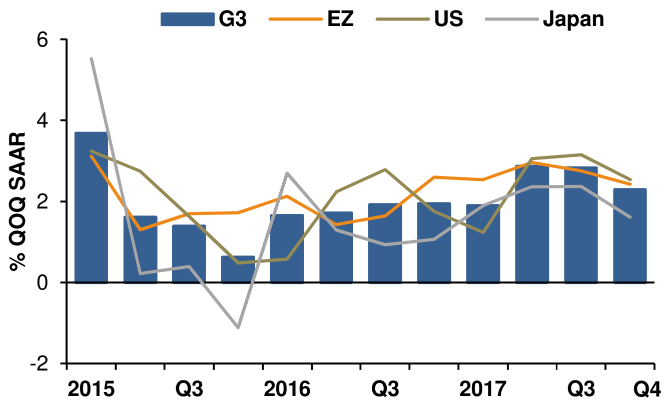
In Asia ex-Japan, the growth forecast for 2018 has been upgraded to 5.1%. Growth in 2019 is projected to be 5.0%.

The US will be a key driver of global growth in 2018

US growth eased in Q4 but remained above trend. The deceleration from the previous quarter was largely due to inventory drawdowns and a fall-off in net exports. However, domestic demand was brisk, with final sales to domestic purchasers rising at its most rapid pace since 2014. The recently-enacted tax cuts and a projected increase in fiscal spending will provide a modest boost to household consumption and business investment. Leading indicators such as the ISM PMI indices, for instance, were close to their highest levels in more than a decade in February. **Accordingly, most analysts forecast a faster pace of growth in the US economy for 2018 and 2019, compared to last year.**

The Eurozone turned in its best annual growth outturn in almost a decade in 2017, following a solid pace of expansion in the final quarter. Strong exports in the core economies of France and Germany propelled growth alongside a marked improvement in conditions in the periphery, with the unemployment rate in Spain and Italy significantly below their 2013 crisis peaks. **The cyclical upswing in the region is expected to extend into 2018,** driven by the ongoing strengthening of labour markets, buoyant sentiment and firm external demand, which are likely to spur private investment. Nonetheless, the pace of growth in 2018 may ease a little from 2017, as presaged by retractions in soft indicators such as the Eurozone composite PMI and Germany's Ifo Business Climate Index.

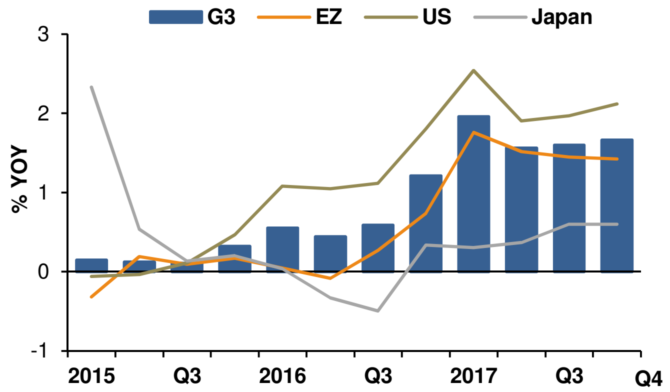
G3 growth eased across the board in Q4.



Source: CEIC and EPG, MAS estimates

In Japan, GDP growth pulled back in Q4 following stronger-than-expected outcomes in the previous two quarters. Nonetheless, the underlying momentum remained firm on the back of higher corporate capital spending and exports to Asia, which have risen for the longest stretch of 15 months since the GFC. Private consumption growth improved following a temporary dip in Q3, even as investment picked up pace, especially in machinery and equipment. Inventory accumulation also contributed to overall growth in Q4. **GDP growth will likely stay above the economy's potential growth rate this year, though it is expected to moderate from 2017.**

G3 headline inflation rose marginally in Q4 2017



Source: CEIC and EPG, MAS estimates

Inflation in the G3 ticked up in Q4 2017, but still came in below expectations for the year as a whole. Despite the cyclical upturn and tighter labour market conditions, core inflation remained muted in the US, and was well below target in the Eurozone and Japan. More recently, there have been nascent signs of a pickup in wage growth in the US, as witnessed by the rise in average hourly earnings in January 2018. Alongside faster growth, sustained wage increases could lead to stronger price pressures, although average **G3 inflation is likely to stay benign in the near term.**

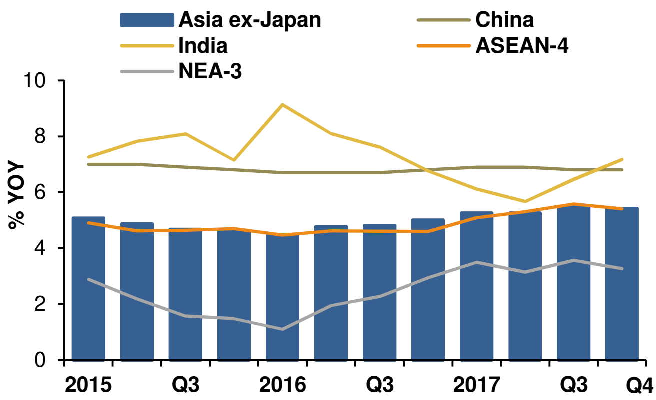
G3 inflation is projected to be contained at 1.8% in 2018.

Sanguine economic prospects in the G3 will continue to support Asia's growth in 2018

Economic growth in China held firm in Q4 2017, as vigorous external demand offset cooling domestic activity. Investment growth softened amidst tighter credit conditions and as regulatory measures to rein in financial risks took effect, but strong net exports provided a countervailing boost to headline GDP growth. Industry-wise, the expansion in the manufacturing sector decelerated in Q4, alongside trade-related services, while the information & communications sector expanded rapidly. **In the coming quarters, China's growth is projected to ease,** as tight financial oversight will restrain private investment and spending on infrastructure projects. In contrast, household consumption will broaden and pick up in the lower-tier cities, thus providing a buffer to economic activity.

In Q4, the Indian economy registered its fastest expansion in over a year, as it further recovered from the effects of demonetisation and the recently implemented Goods and Services Tax (GST). Fixed investment growth rose sharply, reflecting in part higher central government capital expenditure amid a major infrastructure push. Meanwhile, net exports subtracted from GDP growth, as lingering disruptions caused by the GST weighed on exporters despite favourable global demand conditions. **India's economic recovery is expected to strengthen in 2018,** lifted by rural and social spending measures in the FY2018/19 budget, alongside the fading of residual GST effects. Upcoming measures to free up credit supply via bank recapitalisations will create more conducive conditions for a gradual revival in private investment later in the year.

Asia ex-Japan growth dipped in Q4.

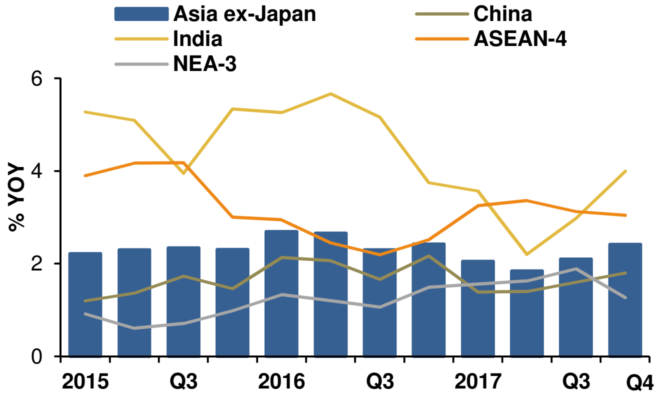


Source: CEIC and EPG, MAS estimates

In the NEA-3, growth in Q4 moderated due to a slowdown in exports and investment. The retraction in Korea's exports could be attributed in part to an unusual confluence of calendar and moving holiday effects. Weakness in the construction industry and some slippage in facility investment also dampened growth in Korea, as well as in Taiwan. Meanwhile, private consumption has strengthened across the region as labour market conditions improved and consumer confidence grew. **Economic activity in the NEA-3 is expected to ease somewhat in 2018 as the cyclical boost from the global electronics upswing runs its course.** Nevertheless, stronger household spending and a pickup in the broader manufacturing sector, underpinned by sturdy global demand, will provide support to growth.

Growth in the ASEAN-4 economies edged down in Q4 2017. Public investment contracted in Malaysia and Thailand, due to slower construction activity in the former and budget disbursement delays in the latter. Nevertheless, economic momentum remained firm across the region, as the global export and manufacturing upswing lifted private investment, with positive spillovers to private consumption. **The near-term outlook for the export-oriented economies remains positive on account of sustained import demand from the G3 and China.** Domestic activity is also expected to hold up well, with investment gaining traction in Indonesia and household transfers in Malaysia buttressing private consumption. In the Philippines, higher tax revenue from fiscal reforms will help to provide the necessary financing for public infrastructure projects and enable their smooth implementation.

Inflation in Asia ex-Japan edged up in Q4, driven by price increases in India and China.



Source: CEIC and EPG, MAS estimates

Headline inflation in Asia ex-Japan rose in Q4, due mainly to higher core inflation in China and increased food prices in India. In comparison, inflation in the NEA-3 economies registered a marked decline as food prices moderated following a weather-related spike in Q3. The appreciation in the currencies of most regional economies also helped to mitigate imported inflation. More generally, demand-pull pressures have been absent in Asia ex-Japan so far, and the inflation outlook for the region remains relatively subdued for 2018.

Asia ex-Japan headline inflation is projected to be 2.8% in 2018.

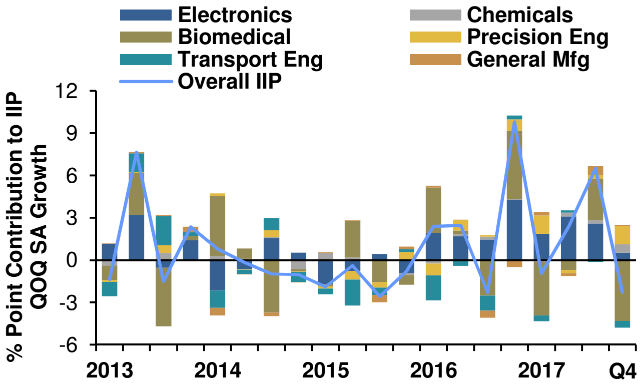
B. Domestic Developments

Growth in the Singapore economy moderated but maintained positive momentum in Q4 2017

The Singapore economy grew by 2.1% q-o-q saar in Q4 2017, extending the robust 11.2% expansion in the preceding quarter. Strong demand for financial and insurance services helped buttress growth in modern services. There was also a sustained contribution from the IT-related industries, including a step-up in electronics-related foreign wholesale trade. In the domestic-oriented sectors, ongoing expansions to healthcare facilities boosted the essential services segment. Meanwhile, the performance of the construction sector remained muted, and the marine & offshore engineering (M&OE) industry continued to face excess capacity even as global oil prices showed some pickup.

For 2017 as a whole, GDP grew by 3.6%, higher than the 2.4% registered in 2016. IT-related industries benefited significantly from the rally in the global tech cycle, as electronics production posted its fastest pace of growth since 2010. Modern services, which was lacklustre in 2016, also recovered on the back of a resurgence in demand for financial services. In particular, banking and sentiment-sensitive fund management activities saw strong growth alongside the improvement in the global economic outlook.

Industrial output saw a sequential decline in Q4, due to weakness in pharmaceutical production.



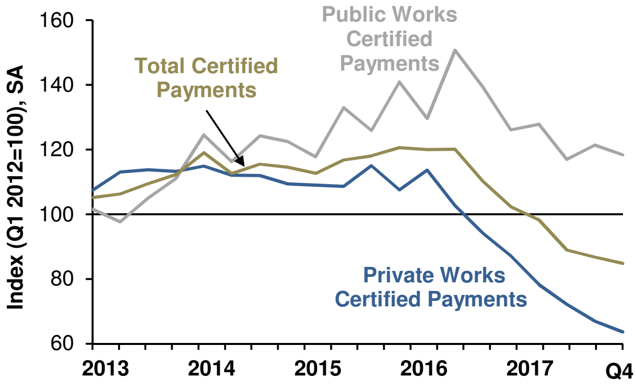
The manufacturing sector contracted by 14.8% q-o-q saar in Q4 2017, a reversal from the 34.9% growth in the preceding quarter. The main source of weakness was the volatile pharmaceuticals industry, which shrank by 28.5% q-o-q sa following 19.8% growth in the previous quarter. The M&OE segment also declined by 7.1% q-o-q sa, as recent increases in crude oil prices have yet to translate to stronger demand for oil & gas exploration capital equipment. In contrast, the electronics cluster continued to benefit from the upswing in the global tech cycle, growing further, albeit at a more modest pace, by 1.3% q-o-q sa compared to 5.4% in Q3.

Concomitantly, the trade-related services sectors recorded mixed outturns in Q4 2017. Sea cargo volumes and container throughput handled at Singapore’s ports saw firm expansions of 3.1% and 3.2% q-o-q sa respectively, contributing to an uptick in growth in water transport. Foreign wholesale trade rose by 1.2% q-o-q sa in Q4, supported mainly by the electronics-related segments. In comparison, there was a sequential pullback in the volume of air cargo handled.

Modern services ended 2017 on a high note, anchored by financial services. The recovery in global trade and economic growth led to higher demand for credit in most regions, which benefited DBU and ACU non-bank lending. In addition, a further rally in global equity markets towards the year-end bolstered the fund management industry, notably in higher performance-based bonuses.[1] The improvement in business sentiment among corporates also led to increased demand for services such as consultancy and headquarter functions. Meanwhile, the information & communications sector grew steadily at 4.8% q-o-q saar, as infrastructure building of the digital economy continued apace.

The domestic-oriented cluster was supported by steady growth in essential services, on the back of expansions to healthcare facilities. For example, Changi General Hospital's new Medical Centre, which was completed in mid-2017, has more than 130 consultation rooms, significantly increasing capacity for medical care. The accommodation & food services sector grew by 2.2% q-o-q saar in Q4, moderating from 6.2% in the previous quarter, as a decline in spending on food & beverage services partially offset the pickup in the accommodation segment, which had benefited from strong growth in tourist arrivals from China and Indonesia. In the construction sector, overall certified payments continued to fall, as both private and public project receipts remained weak. Nonetheless, the pace of contraction had eased from the first three quarters of 2017.

Certified progress payments declined in Q4 2017.



Source: EPG, MAS estimates

[1] An industry benchmark, the Eurekahedge Asian Hedge Fund Index, posted 4.2% returns in Q4 2017 alone, and a stellar 17.1% for the full year.

Growth in 2018 is expected to be lower than in 2017

Singapore's GDP growth is expected to come in slightly above the middle of the 1.5–3.5% forecast range in 2018.

After expanding by 3.6% in 2017, growth in the domestic economy is expected to moderate but still remain relatively firm in 2018. The ongoing pickup in global trade and economic activity should continue to lend support to Singapore's trade-related industries such as wholesale and transport & storage. At the same time, the manufacturing sector should continue to record strong growth this year, following the exceptional performance in 2017. Growth will continue to be underpinned by steady demand in the electronics and precision engineering industries, even as it tapers from the highs recorded last year.[2] In addition, oil trading activities should see some turnaround in 2018, after being weighed down in the previous year by supply overhang conditions and relatively low volatility in the global oil markets.

In modern services, the financial services sector is expected to grow at a moderate pace. The gradual normalisation of global interest rates should lead to improved bank margins, although the impact of the latter could be partially offset by a dampening of loan demand due to higher borrowing costs. At the same time, the positive outlook in emerging Asia economies will boost demand more generally for financial products, including insurance. In comparison, prospects for the information & communications industry are mixed. IT & information services demand should continue to be robust, anchored by the public sector's Smart Nation initiatives and the private sector's digital transformation efforts. However, increased competition in the telecommunications segment could weigh on the performance of industry players.

The domestic-oriented sectors will likely post further improvements in 2018. The consumer-facing industries, including the food & beverage and retail segments, should benefit from gradually improving household confidence and sentiment, as labour market conditions strengthen. Nonetheless, the persistent weakness in construction demand, particularly in private sector building activity, will continue to weigh on growth, even as more public projects come on-stream. Notable public sector projects include the 21.5 km North-South Corridor and Phase 2 of the Deep Tunnel Sewerage System.

[2] In January 2018, Gartner projected single-figure growth in worldwide semiconductor revenue for this year, after it rose by 22.2% in 2017.

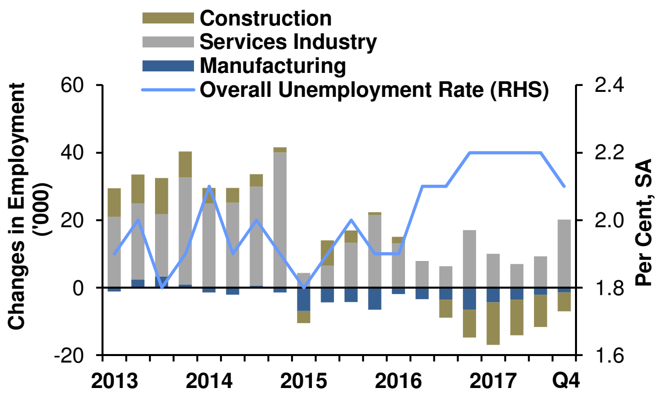
C. Labour Market and Consumer Prices

	2017				
	Q1	Q2	Q3	Q4	Full Year
Labour Market and Prices					
Unemployment Rate, sa, %	2.2	2.2	2.2	2.1	2.2
Wage Growth, y-o-y %	1.9	3.1	3.2	4.0	3.0
CPI-All Items Inflation, y-o-y %	0.6	0.8	0.4	0.5	0.6
MAS Core Inflation, y-o-y %	1.3	1.6	1.5	1.4	1.5

The labour market strengthened in Q4 2017

Preliminary estimates showed that overall net employment grew by 12,800 in Q4 2017, a significant turnaround from the preceding quarter (contraction of 2,300), and a step-up from the same period a year ago (2,300). This improvement was broad-based across the manufacturing, construction and services sectors. The services sector recorded a substantial employment gain of 20,200. While this was partly boosted by year-end festivities, it was higher than the corresponding figure a year ago (17,100). Employment continued to decline in construction, though the rate of contraction moderated to 5,600 in Q4 from 9,500 in the previous quarter. Similarly, manufacturing job losses fell to 1,400, the lowest since Q4 2014, likely reflecting continued strong performance in the electronics industry. For the whole of 2017, total employment excluding foreign domestic workers was estimated to have declined for the first time since 2003, by 10,700 or 0.3%. This was due to a contraction in foreign (non-domestic workers) employment (-32,000), mostly in the construction and M&OE industries, while local employment continued to expand.

The overall unemployment rate edged down to 2.1% in December 2017.



The seasonally-adjusted overall unemployment rate declined to 2.1% in Q4 2017 from 2.2% in Q3, while the resident unemployment rate dipped by 0.2% point to 2.9%. A total of 3,300 workers were retrenched in Q4 last year, similar to that in Q3 (3,400) but lower than in the same quarter the year before (5,440). Compared to a year ago, the manufacturing, construction and services sectors all recorded declines in retrenchments, with services lay-offs in particular falling relatively significantly to 1,800 from 2,840. On a sequential basis, however, retrenchments in manufacturing rose from 730 in Q3 2017 to 1,200 in Q4, which was largely offset by the declines in the construction and services sectors.

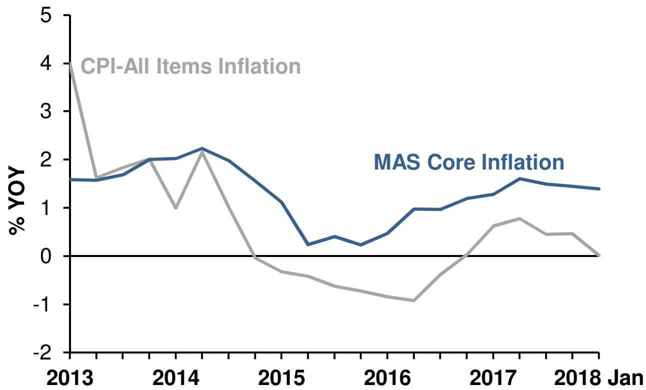
Resident wages grew by 4% on a y-o-y basis in Q4 2017, compared with 3.2% in the previous quarter. Wage gains were generally higher in public administration and education, real estate as well as administrative & support services, but weaker in transport & storage services and retail trade. For the whole of 2017, wage growth averaged 3%, compared with 3.7% in the preceding year.

In 2018, the labour market is expected to continue strengthening. Net employment is expected to grow, in part predicated on fewer job losses in the construction and marine & offshore engineering industries, as well as stronger hiring in the modern services and community, social & personal services sectors. Wage growth is expected to pick up this year, but the unwinding of remaining slack in the labour market will likely keep wage pressures in check.

Inflationary pressures were contained in Q4 2017 and early this year

Core inflation fell slightly in the last quarter of 2017 while headline inflation edged up. MAS Core Inflation eased to 1.4% y-o-y in Q4 2017 from 1.5% in the preceding quarter, as the smaller year-ago increases in the prices of retail items and electricity & gas more than offset higher food inflation. Meanwhile, a stronger pickup in private road transport cost contributed to the rise in CPI-All Items inflation from 0.4% y-o-y in Q3 to 0.5% in Q4. In January 2018, core inflation was unchanged at 1.4% as higher retail inflation offset a decline in services and food inflation. In comparison, headline inflation fell to 0%, mainly due to the additional Service and Conservancy Charges (S&CC) rebates disbursed to households.

Inflation remained low and stable.



The cost of electricity & gas[3] rose at a slower pace of 6.4% y-o-y in Q4, compared to 7.7% in Q3, due to lower electricity tariffs. It subsequently rose by

[3] Electricity & gas includes electricity, liquefied petroleum gas (LPG) and gas (for domestic use).

6.7% in January as electricity tariffs were raised following the rally in global oil prices in the preceding months.[4]

Services inflation came in at 1.5% y-o-y in Q4, unchanged from the previous quarter. While there was a smaller increase in the cost of medical & dental treatment, telecommunication services fees also picked up more strongly and holiday expenses reversed their year-ago decline. In January 2018, services inflation eased to 1.3%, as lower telecommunications services fees and air fares outweighed a smaller fall in the cost of public road transport.

Food inflation edged up to 1.4% y-o-y in Q4, from 1.3% in the preceding quarter, mainly reflecting larger price increases for non-cooked food items. These price increases subsequently moderated in January. Meanwhile, prices of prepared meals were broadly stable over both periods.

The overall cost of retail goods registered a smaller 0.6% y-o-y increase in Q4, compared to 0.9% in Q3. This was largely on account of a reduction in the prices of clothing & footwear. Retail goods inflation accelerated to 1.3% in January as prices of clothing & footwear, personal care products as well as medical products, appliances & equipment reversed declines recorded in December.

Private road transport inflation picked up in Q4 while accommodation cost fell at a similar pace as in the previous quarter. Private road transport inflation rose from 2.7% in Q3 to 2.9% in Q4, mainly due to a rise in car prices. However, it subsequently slowed to 1.6% in January, as a decline in Certificate of Entitlement (COE) premiums contributed in part to lower car prices. The cost of accommodation remained on a downtrend, registering a decline of 4.0% in Q4, similar to the preceding quarter, before falling by a steeper 5.3% in January as S&CC rebates were disbursed to households in January 2018, but not in the same month last year.[5]

Relatively subdued cost pressures expected in 2018

MAS Core Inflation is expected to stay in the range of 1–2% in 2018, after coming in at 1.5% in 2017. CPI-All Items inflation averaged 0.6% in 2017 and is projected to be 0–1% this year.

On the external front, imported inflation is likely to rise mildly, as global demand improves amid ample supply in key commodity markets. Notwithstanding recent volatility, global oil prices are expected to average only slightly higher this year,

[4] The fuel cost component of the electricity tariff for each quarter is calculated based on average forward fuel oil and dated Brent oil prices in the first two-and-a-half month period of the preceding quarter.

[5] As announced in Budget 2017, the quantum of S&CC rebates was increased in FY2017, with an additional 0.5 months of rebates disbursed to most HDB households in January 2018. S&CC rebates, which lower the housing maintenance & repair cost component of the accommodation CPI, were disbursed in April, July and October last year, but not in January. This resulted in a negative contribution to year-on-year inflation in January 2018.

compared to 2017. Despite the recent uplift in economic growth, overall domestic price pressures should remain relatively restrained as the accumulated slack in the economy is progressively absorbed over the course of this year.

Accommodation costs should continue to dampen CPI-All Items inflation in 2018, while private road transport costs are likely to rise at a more moderate pace due to the dissipation of the inflationary impact from administrative measures.[6]

Keeping to a neutral monetary policy stance

In the October 2017 Monetary Policy Statement, MAS maintained the rate of appreciation of the S$NEER policy band at zero percent. The width of the policy band and the level at which it is centred was kept unchanged. The Singapore economy is likely to expand at a steady, but slightly slower, pace in 2018 compared to last year, while MAS Core Inflation is envisaged to be broadly stable throughout this year. Over the medium term, core inflation is expected to trend towards but average slightly below 2%.

[6] The administrative measures associated with higher private road transport inflation in 2017 include the expiry of the one-year road tax rebates and the upward revision in parking fees in August and December 2016, respectively.

D. Fiscal Policy

The FY2018 Budget committed to strengthen Singapore's medium-term economic prospects in a fiscally sustainable manner

In FY2017, the revised overall Budget surplus of $9.6 billion (2.1% of GDP) was larger than the $1.9 billion previously anticipated. Apart from lower-than-budgeted development spending, the larger surplus was also due to one-off factors, such as higher-than-expected contributions from statutory boards[7] and stamp duties. At the same time, corporate income tax receipts rose alongside the outperformance of the economy in 2017.

Budget 2018 continued to provide near-term relief for firms and households affected by restructuring and the rising costs of living. Recognising that firms still face near-term cost pressures, the Budget extended the corporate income tax rebate to YA2019 and enhanced the relief offered in YA2018. At the same time, it deferred the hike in the foreign worker levy for the Marine Shipyard and Process sectors for another year. For households, the S&CC rebate was extended to FY2018, and additional "Goods and Services Tax Voucher (GSTV) – U-Save" will be provided in 2019–21 to mitigate increases in households' electricity and gas expenses arising from the imposition of the carbon tax in 2019. Part of the one-off increase in Government revenues was also shared with Singaporeans in the form of the SG Bonus. Together, these measures will help to alleviate the various costs faced by businesses and households.

The main focus of Budget 2018 was on supporting Singapore's medium-term growth in a sustainable manner. First, the Budget fine-tuned existing measures so as to position industries, firms and individuals to benefit from global structural shifts. Recognising the limitations of universal, broad-brush approaches, Budget 2018 strengthened targeted assistance to specific sectors and industries. For example, the Productivity and Innovation Credit scheme was allowed to expire, even as the Budget increased targeted industry- and process-specific measures, such as by extending the National Robotics Programme to the construction sector and introducing a slew of Aviation and Maritime Transformation Programmes. Measures to support innovation were also fine-tuned to target SMEs more specifically. For workers, Budget 2018 built on existing schemes and provided new programmes to deepen Singaporeans' capabilities. The Tech Skills Accelerator Programme will be extended to new sectors and emerging skills areas, while the new Capability Transfer Programme would facilitate skills transfer from foreign specialists to Singaporean trainers and trainees.

Second, Budget 2018 laid out measures to ensure environmental sustainability and more inclusive outcomes in society. Following the announcement in Budget

[7] The boost to statutory boards' contributions was mainly due to an exceptional contribution from MAS as global equity and bond markets rallied in the second half of FY2016.

2017 on the Government's intention to levy carbon tax, Budget 2018 provided further details on the tax, which large emitters will be liable to pay. To further entrench social mobility and inclusiveness, the Government enhanced Edusave contributions and bursaries for students from lower-income families and incentivised companies to partner Institutions of a Public Character to foster a spirit of giving. The Budget also consolidated implementation of elderly-related social schemes under the Agency for Integrated Care, which will ensure that critical services are delivered more effectively to the vulnerable elderly.

Third, the Budget put in place plans to meet future increases in spending needs, thereby ensuring long-term fiscal sustainability. The Government chose to use part of the one-off revenue gains in FY2017 for future spending, by committing $5 billion to the newly established Rail Infrastructure Fund. At the same time, it will look into providing guarantees for statutory boards' and government-owned companies' borrowings to finance infrastructure investments. This would spread out and lower the cost of enhancing infrastructure across a longer period to better match the time horizon over which the benefits from these investments would be reaped. To ensure that the Government will have a sustainable revenue base to fund its programmes, Budget 2018 announced that the GST rate would be increased from 7% to 9% sometime between 2021 and 2025.

For FY2018, the government has projected an overall budget deficit[8] of $0.6 billion (0.1% of GDP).

The basic balance, which includes special transfers only (i.e., excluding top-ups to endowment and trust funds), is projected to record a larger deficit of $9.2 billion (2.0% of GDP).

[8] This includes special transfers, top-ups to trust and endowment funds, and net investment returns contribution.

Summary of Fiscal Position

	FY2016		FY2017 Revised		FY2018 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	69.0	15.9	75.2	16.6	72.7	15.5
Total Expenditure	71.0	16.4	73.9	16.3	80.0	17.1
Operating Expenditure	52.1	12.0	56.1	12.4	57.7	12.3
Development Expenditure	18.9	4.4	17.8	3.9	22.4	4.8
Primary Surplus/Deficit (–)	**(2.1)**	**(0.5)**	**1.2**	**0.3**	**(7.3)**	**(1.6)**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	2.8	0.6	2.2	0.5	1.8	0.4
Basic Surplus/Deficit (–)	**(4.9)**	**(1.1)**	**(1.0)**	**(0.2)**	**(9.2)**	**(2.0)**
Less: Top-ups to Endowment and Trust Funds	3.6	0.8	4.0	0.9	7.3	1.6
Add: NIR Contribution	14.6	3.4	14.6	3.2	15.9	3.4
Budget Surplus/Deficit (–)	**6.1**	**1.4**	**9.6**	**2.1**	**(0.6)**	**(0.1)**

Note: Figures may not tally due to rounding.
Source: Ministry of Finance

Selected Indicators

GENERAL INDICATORS, 2017			
Land Area (Sq km)	719.9	Literacy Rate* (%)	97.2
Total Population ('000)	5,612.3	Real Per Capita GDP (US$)	55,266
Labour Force ('000)	3,657.0	Gross National Savings (% of GNI)	48.2
Resident Labour Force Participation Rate (%)	67.7		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2017		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2017	
Manufacturing	19.2	Private Consumption	36.2
Wholesale & Retail Trade	17.6	Private Gross Fixed Capital Formation	20.5
Business Services	14.8	Public Consumption	11.0
Finance & Insurance	13.3	Public Gross Fixed Capital Formation	4.7
Transportation & Storage	7.2	Increase in Stocks	2.9
Construction	4.3	Net Exports of Goods & Services	24.7
Information & Communications	4.2		
Accommodation & Food Services	2.1		

MAJOR EXPORT DESTINATIONS (% SHARE), 2017		MAJOR ORIGINS OF IMPORTS (% SHARE), 2017	
Total Exports (S$ Billion)	515.0	Total Imports (S$ Billion)	452.1
China	14.5	China	13.8
Hong Kong	12.3	Malaysia	11.9
Malaysia	10.6	US	10.5
Indonesia	7.5	Taiwan	8.3
US	6.3	Japan	6.3
ASEAN	29.0	ASEAN	21.6
NEA-3	21.3	NEA-3	14.6
EU	8.4	EU	12.2

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2017		MAJOR IMPORTS BY COMMODITY (% SHARE), 2017	
Domestic Exports (S$ Billion)	259.3	Total Imports (S$ Billion)	452.1
Mineral Fuels	32.6	Electronics	28.7
Electronics	19.4	Mineral Fuels	22.1
Chemicals	18.6	Machinery & Transport Equipment (ex. Electronics)	17.2
Machinery & Transport Equipment (ex. Electronics)	11.0	Manufactured Articles	8.5
Manufactured Articles	8.4	Chemicals	8.2
Food and Live Animals	2.3	Manufactured Goods	5.5

Source: IE Singapore

Note: Labour market statistics were obtained from the Ministry of Manpower, while trade and index of industrial production (IIP) data were provided by IE Singapore and EDB respectively. All other data in this document were obtained from the Department of Statistics, or Ministry of Trade and Industry, unless otherwise stated.

OVERALL ECONOMY	2016	2017	2017 Q1	2017 Q2	2017 Q3	2017 Q4	Dec-17	Jan-18
GDP at current prices (S$ bil)	427.9	447.3	109.7	108.8	111.2	117.6	na	na
GDP (US$ bil)	309.9	324.3	77.5	78.1	81.7	86.9	na	na
Real GDP Growth (YOY % change)	2.4	3.6	2.5	2.8	5.5	3.6	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	-1.5	2.8	11.2	2.1	na	na
By Sector (YOY % change):								
Manufacturing [1/]	3.7	10.1	8.5	8.4	19.1	5.0	-3.4	17.9
Electronics [1/]	15.8	33.5	33.8	36.9	40.6	24.1	4.4	32.4
Non-electronics [1/]	-0.9	-0.2	-1.7	-3.4	8.9	-4.0	-7.4	9.9
Finance & Insurance	1.6	4.8	0.6	5.0	7.1	6.3	na	na
Business Services	-0.3	0.6	1.3	0.4	0.5	0.4	na	na
Construction	1.9	-8.4	-6.9	-12.2	-9.3	-5.0	na	na
Transportation & Storage	1.3	4.8	4.7	3.9	5.2	5.3	na	na
Information & Communications	3.6	3.3	1.6	0.8	5.1	6.0	na	na
Wholesale & Retail Trade	1.0	2.3	0.5	2.2	3.3	3.0	na	na
Accommodation & Food Services	3.8	1.2	-0.3	1.0	1.3	2.9	na	na
By Expenditure Component (YOY % change):								
Consumption	2.1	3.3	0.3	3.2	5.7	4.4	na	na
Private	1.7	3.1	-0.9	2.7	5.3	5.5	na	na
Public	3.5	4.1	4.0	5.3	7.1	0.5	na	na
Gross Fixed Capital Formation	-0.6	-1.8	-3.2	-3.5	-2.7	2.2	na	na
Private	-3.0	-1.6	-5.6	-1.0	-2.1	2.1	na	na
Public	10.0	-2.6	5.4	-13.4	-4.8	3.0	na	na
External Demand	1.1	4.1	5.4	2.5	4.4	4.2	na	na
TRADE								
Total Exports, fob (YOY % change)	-5.1	10.3	16.9	8.3	10.1	6.6	0.6	9.2
Non-Oil Domestic Exports	-2.8	8.8	15.0	3.0	7.6	10.4	3.1	13.0
Re-Exports	-4.4	5.2	6.5	7.0	9.3	-1.3	-6.6	4.6
Total Imports, cif (YOY % change)	-4.7	12.1	15.5	11.0	13.4	9.1	1.6	4.8
WAGE-PRICE INDICATORS								
Unemployment Rate (SA,%)	2.1	2.2	2.2	2.2	2.2	2.1	na	na
Average Nominal Wages (S$ per month)	5,074	5,229	5,586	4,939	4,795	5,596	na	na
Consumer Price Index Inflation (YOY % change)	-0.5	0.6	0.6	0.8	0.4	0.5	0.4	0.0
MAS Core Inflation (YOY % change)	0.9	1.5	1.3	1.6	1.5	1.4	1.3	1.4
FINANCIAL INDICATORS								
S$ Exchange Rate Against: (end-period)								
US Dollar	1.4463	1.3366	1.3978	1.3773	1.3584	1.3366	1.3366	1.3091
100 Japanese Yen	1.2394	1.1851	1.2470	1.2316	1.2062	1.1851	1.1851	1.2026
Euro	1.5230	1.5962	1.4923	1.5758	1.6007	1.5962	1.5962	1.6272
Interest Rates (end-period, % p.a.)								
3-month Fixed Deposit Rate	0.19	0.14	0.14	0.14	0.14	0.14	0.14	0.14
3-month S$ SIBOR [2/]	0.97	1.50	0.95	1.00	1.12	1.50	1.50	1.13
Prime Lending Rate	5.35	5.28	5.28	5.28	5.28	5.28	5.28	5.28
Money Supply (end-period)								
Broad Money, M2 (YOY % change)	8.0	3.2	7.5	7.3	5.4	3.2	3.2	3.4
Straits Times Index (end-period) [3/]	2,880.8	3,402.9	3,175.1	3,226.5	3,219.9	3,402.9	3,402.9	3,534.0
YOY % change	-0.1	18.1	11.8	13.6	12.2	18.1	18.1	16.0
GOVERNMENT BUDGET [4/]								
Operating Revenue (S$ mil)	67,969	70,225	16,596	18,956	19,390	15,283	na	na
Total Expenditure (S$ mil)	72,917	71,634	22,985	15,222	15,450	17,978	na	na
Operating Expenditure	51,081	54,884	17,739	10,860	12,128	14,157	na	na
Development Expenditure	21,836	16,751	5,246	4,362	3,322	3,821	na	na
Primary Surplus/Deficit (S$ mil)	-4,947	-1,409	-6,388	3,734	3,940	-2,695	na	na
% of GDP	-1.2	-0.3	-5.8	3.4	3.5	-2.3	na	na
BALANCE OF PAYMENTS								
Current Account Balance (% of GDP)	19.0	18.8	19.2	18.7	22.5	15.1	na	na
Goods Balance	27.6	26.2	26.3	26.7	28.3	23.5	na	na
Services Balance	-1.5	-1.9	-2.3	-1.6	-1.6	-2.0	na	na
Primary Income Balance	-5.2	-3.6	-3.0	-4.4	-2.3	-4.6	na	na
Secondary Income Balance	-2.0	-1.9	-1.8	-2.0	-1.9	-1.8	na	na
Capital & Fin Account Balance (% of GDP)	19.6	10.4	4.7	15.7	12.0	9.2	na	na
Direct Investment	-15.0	-12.0	-20.2	-8.5	-8.5	-11.0	na	na
Portfolio Investment	8.7	10.6	1.4	17.1	10.0	13.7	na	na
Financial Derivatives	4.3	-4.2	0.5	-8.1	-10.6	1.1	na	na
Other Investment	21.4	16.0	23.0	15.2	21.1	5.3	na	na
Overall Balance (% of GDP)	-0.6	8.5	15.1	4.1	10.1	4.7	na	na
Official Foreign Reserves (US$ mil) [5/]	246,575	279,900	259,638	266,303	275,410	279,900	279,900	282,385
Months of Imports	10.1	10.3	10.3	10.4	10.4	10.2	10.2	10.2

Source:
[1/] Index of Industrial Production from EDB.
[2/] ABS Benchmarks Administration Co Pte Ltd
[3/] Straits Times Index from SGX.
[4/] Ministry of Finance
[5/] MAS
na: Not available