

## Highlights

Confounding initial expectations of a severe and prolonged contraction, improving conditions in the global environment lifted the Singapore economy above its pre-recession peak by Q1 2010. Compared to two quarters ago, global growth now appears to be supported by firmer foundations. There is increasing evidence that private sector demand is returning, just as government support is gradually being unwound and the earlier inventory bounce in worldwide manufacturing is receding. To be sure, economic performance will continue to vary significantly across regions and there are lingering uncertainties on the horizon, including the risk of sovereign debt defaults. Nonetheless, compared to six months ago, the external and domestic economic outlook has clearly turned more positive. Consequently, the likelihood of a significant pullback in output has now eased. For 2010 as a whole, Singapore's GDP growth is forecast to come in between 7% and 9%.

Chapter 1 of this *Review* begins with an overview of recent economic developments, both internationally and in Singapore. Global GDP had returned to its previous peak by Q4 2009, helped by supportive policies and the strong rebound in Asian exports. The recovery in Singapore started to take root in the last quarter of 2009 and the economy has now recovered all the output lost during this downturn, led by a rebound in electronics exports and trade-related sectors. In Chapter 2, we focus on the labour market and prices, noting the swift resumption of job creation compared with past recoveries. We also examine the reasons behind the strong turnaround in the CPI, which returned to its previous peak in three quarters, driven by increases in the cost of fuel & utilities as well as private road transport.

Chapter 3 presents the outlook for both the external and domestic economies. We highlight the role that Asia ex-Japan will play in leading the global recovery compared with the more uneven and uncertain performance of the industrialised economies. With global demand supported by firmer foundations, the strength in Singapore's IT manufacturing sector, trade-related services and tourism-linked activities should help to offset pockets of weakness in other industries. As Singapore's output gap has turned positive, the economy's demands on productive resources such as labour could add to domestic cost pressures in the coming quarters, at a time when global commodity prices are also rising.

The chapter ends with an assessment of the macroeconomic policy mix in Singapore, highlighting the withdrawal of stimulus measures in view of the reduction in downside risks to growth, and the need for policies to have a medium-term orientation aimed at promoting sustained, non-inflationary economic growth. There is also a box summarising the key findings from MMS simulations of medium-term effects of the FY2010 Budget on Singapore's unemployment rate, productivity and real wages.

With the 2000s having come to a close, we take the opportunity to look back and identify three major themes that had a significant impact on the Singapore economy during that period. The themes are: increased GDP volatility; the growing impact of China's economic ascent; and the importance of employment as a driver of GDP growth from the supply-side perspective. An analysis of the first two themes is presented in Chapter 1, while Box A provides a further breakdown of the sources of volatility and shows that domestic industry diversification has mitigated somewhat the effects of common global shocks. Finally, in a Special Feature, we explore in detail the third theme, namely the sources of Singapore's GDP growth over the past decade. In our study, we also make projections for the next 10 years, which show that productivity growth will increase, underpinned by higher quality of labour as well as a faster rate of accumulation of capital, including information and communication technology.

The next issue of the *Review* will be released in October 2010.

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