

1.1 External Developments

Asian Trade Revived with a Pickup in Global Growth

Amid a G3 recovery, trade in Asia strengthened.

Global economic momentum picked up further towards the end of last year, with Asia providing much of the uplift, even as the G3 saw a slight moderation. GDP growth in Singapore's main trading partners rose from 4.7% q-o-q SAAR in Q3 2013 to 4.8% in Q4. This brought the full-year outcome for 2013 to 3.8%, similar to the 3.9% in 2012. (Table 1.1)

Among the G3, domestic demand was the main growth driver in the US and Japan, where increasing household incomes led to higher consumption spending in Q4 2013. However, capex spending in the G3 economies as a whole remained generally sluggish, despite the investment recovery in the Eurozone. This in turn led to relatively subdued import demand, particularly for intermediate goods.

With Asia ex-Japan exports being more closely tied to G3 investment expenditure rather than consumption demand, the advanced economies provided only a modest lift to regional trade activity. Indeed, export growth to the G3 since Q4 2012 has been generally weaker compared with past cyclical upturns. (Chart 1.1) Instead, overall trade activity was boosted by more vibrant trade flows within Asia, as indicated by the dark green shaded boxes in Table 1.2. Most economies in the region registered steady increases in exports to China in Q4 2013.

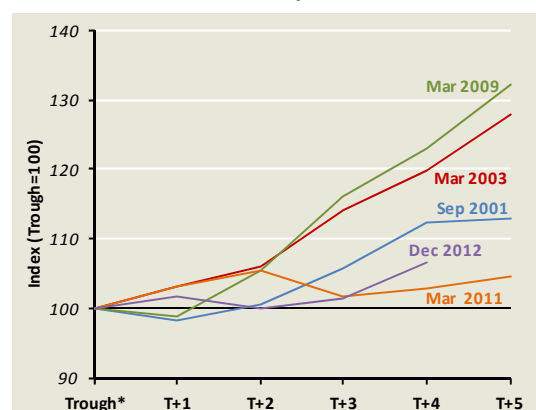
Table 1.1
GDP Growth

	2012	2013	2013 (%)	
			Q3	Q4
			q-o-q SAAR	
Total*	3.9	3.8	4.7	4.8
G3*	1.2	1.0	2.1	1.6
Asia ex-Japan*	5.2	5.0	5.9	6.2
NIE-3*	1.7	2.7	2.4	5.0
			y-o-y	
ASEAN-4*	6.1	4.9	5.0	4.6
China	7.7	7.7	7.8	7.7
India	4.8	4.6	4.8	4.7

Source: CEIC and EPG, MAS estimates

* Weighted by shares in Singapore's NODX.

Chart 1.1
Asia ex-Japan Exports to the G3
in Past Upturns



Source: CEIC and EPG, MAS estimates

* Lines show the evolution of Asia ex-Japan exports to the G3, starting from the G3 GDP trough indicated by the labels.

Table 1.2
Global Export Growth in Q4 2013

Export Origin, % Point Contribution to QOQ SAAR Growth	Export Destination				
	G3	NIE-3	ASEAN-4	China	India
G3	<1%	<1%	<1%	1% to 3%	<1%
NIE-3	<1%	1% to 3%	<1%	>3%	<1%
ASEAN-4	>3%	1% to 3%	<1%	>3%	1% to 3%
China	>3%	<1%	<1%	Not Applicable	<1%
India	<1%	<1%	<1%	>3%	Not Applicable

Source: CEIC and EPG, MAS estimates

Note: NIE-3 refers to Hong Kong, Korea and Taiwan. ASEAN-4 comprises Indonesia, Malaysia, Thailand, and the Philippines.

US economic activity was weighed down by a fall in residential investment.

Growth in the US economy moderated to 2.6% q-o-q SAAR in Q4 2013 from 4.1% in Q3, weighed down by weaker government expenditure and investment spending. (Chart 1.2) Gross investment contributed significantly less to growth as additions to inventories levelled off and residential investment declined for the first time since Q3 2010. Higher interest rates on housing loans have had a discernible impact on recent mortgage take-up rates—mortgage applications fell by an average of 3.9% over the Nov–Dec period, following an average increase of 1.3% in the previous two months. (Chart 1.3) However, non-residential capital formation was boosted by a sharp increase in equipment spending of 10.9% q-o-q SAAR in Q4 2013, with computer and peripheral spending rising by 29.7%. Meanwhile, a decline in structures spending contributed to reduced import demand for intermediate goods such as industrial supplies. As a whole, goods imports grew by just 1.3% q-o-q SAAR in Q4, from 2.4% in the previous quarter, while exports performed well—goods exports to China surged by 15.2% on a q-o-q SA basis.

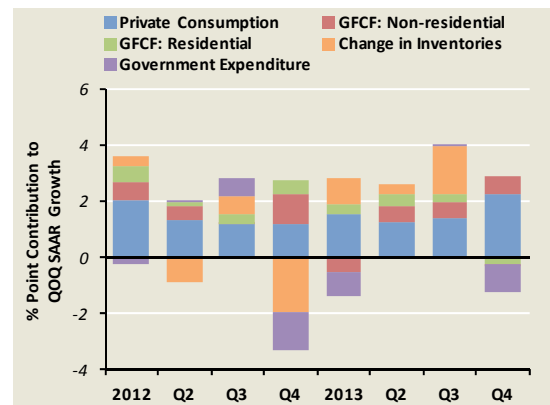
In Q4 2013, non-farm payroll employment growth accelerated to 595,000 from 515,000 in Q3 which, coupled with the \$1.1 trillion Congressional budget deal in December, boosted consumer confidence. As a result, private consumption rose at its fastest pace since Q4 2010, contributing 2.2% points to GDP growth.

The continued recovery in the Eurozone was led by investment ...

The economic recovery in the Eurozone extended into its third quarter in Q4 2013, as the region’s GDP expanded at a more robust pace of 0.9% q-o-q SAAR. The strengthening was brought about, in part, by an upturn in investment spending across a majority of Eurozone member states. Exports also rebounded in Q4 after a lacklustre showing in Q3. In Germany, exports rose at their fastest rate since 2010, lifted by demand from countries in the European Union. However, private consumption in the Eurozone was restrained by subdued wage growth and still-elevated unemployment rates in a number of countries.

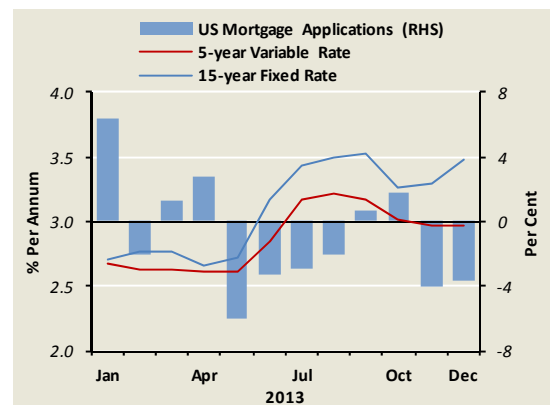
While the long-awaited investment recovery began with the Eurozone’s return to growth in Q2 2013, it gathered strength in H2 2013 due to improving

**Chart 1.2
Contribution to US Domestic Demand**



Source: CEIC

**Chart 1.3
US Mortgage Rates and Applications**



Source: Mortgage Bankers Association and Freddie Mac

business sentiment, an easing of bank lending standards, and the fading of uncertainties surrounding discrete risk events. (Chart 1.4) Sovereign bond yields have fallen back to pre-crisis lows in several countries in the Eurozone periphery, spurring a decline in bank lending rates. Lower borrowing costs and higher capacity utilisation levels have unlocked some pent-up demand for investment spending, which had been languishing at 20% below the pre-crisis peaks in some countries.

... while Japan's growth eased on a pullback in net exports.

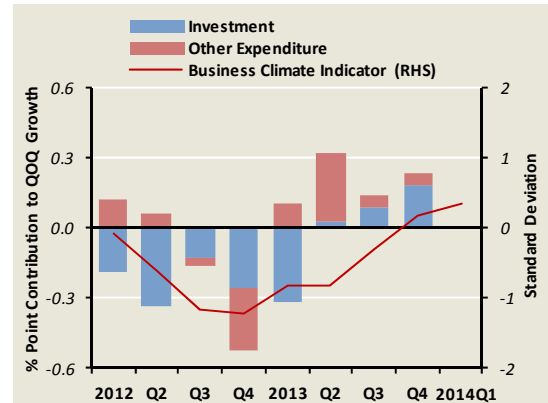
In Japan, the economy recorded another quarter of slower growth, with GDP rising by 0.7% q-o-q SAAR in Q4 2013, compared to 0.9% in Q3. After contributing strongly to GDP growth in H1 2013, net exports turned into a drag in the second half of the year. (Chart 1.5) Demand for imports, especially in Q4, was ebullient as spending was brought forward in anticipation of the consumption tax hike in April 2014. Meanwhile, overall exports stagnated in H2, despite the earlier yen depreciation. While part of this weakness reflected muted demand from Japan's main trading partners, principally the US, the lack of export price adjustment in foreign currency terms by capacity-constrained firms also played a role. GDP in Japan was propped up instead by private consumption and residential investment in Q4 2013, which jointly contributed 1.5% points to GDP growth.

Fiscal stimulus boosted the Chinese economy in H2 2013 ...

Economic growth in China was firm in Q4, as expansionary fiscal measures introduced in mid-2013 continued to take effect. The economy grew by 7.7% y-o-y in Q4, comparable to the 7.8% recorded in the previous quarter. Gross fixed capital formation accounted for more than half of the expansion, with infrastructure investment posting rapid growth of 22.9% y-o-y. (Chart 1.6) Correspondingly, industrial production maintained double-digit growth of 10% y-o-y in the quarter, on the back of healthy domestic and foreign orders.

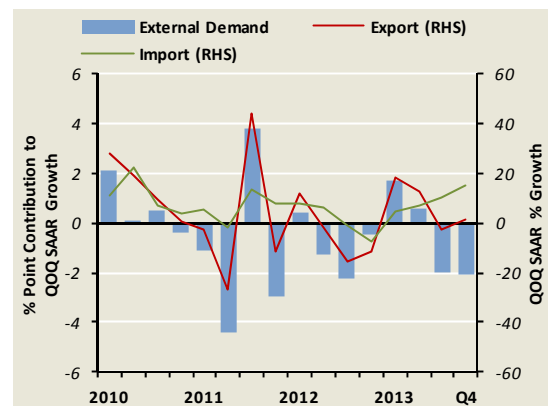
On the consumption front, retail sales accelerated for the fourth quarter in a row, rising by 13.5% y-o-y in Q4 last year. Spending on big-ticket items such as jewellery and furniture boosted overall retail volumes, offsetting policy-induced declines in sales of

**Chart 1.4
Eurozone Investment and Business Climate Indicator**



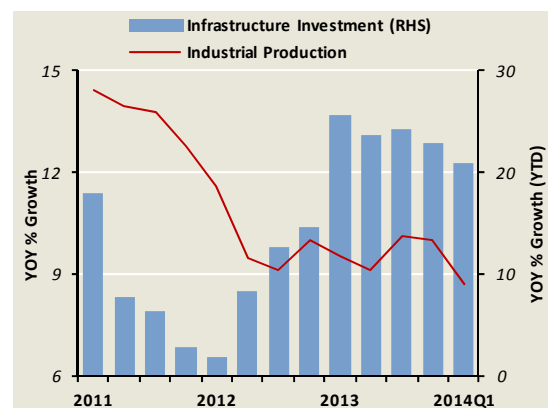
Source: European Commission, Eurostat and EPG, MAS estimates

**Chart 1.5
Contribution of External Demand to GDP Growth in Japan**



Source: Japan's Cabinet Office

**Chart 1.6
China Infrastructure Investment and Industrial Production**



Source: CEIC

tobacco, liquor and motor vehicles. Robust expansion of consumer demand, in turn, contributed to the 7.1% y-o-y increase in China's goods imports in Q4.

... and supported export growth in the NIEs.

China's stronger demand for imports in H2 2013 was mirrored in a recovery in exports in the NIEs, which took place alongside a nascent upturn in the global electronics cycle. The increase in exports in these trade-oriented economies was concentrated in shipments of intermediate goods to China, particularly electronics, part of which were processed into final goods for the G3 markets. (Chart 1.7) At the same time, import growth in the NIEs also picked up to 11.9% q-o-q SAAR in Q4, outpacing the gain in exports of 7.8%. Consequently, net exports subtracted from the NIEs' overall growth, leaving domestic demand as the main source of support. All in, weighted GDP growth of these economies accelerated to 5.0% q-o-q SAAR in Q4, from 2.4% in the preceding quarter.

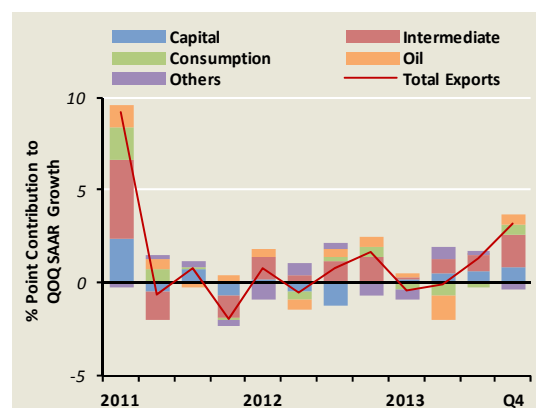
Growth in India remained sub-par, although net exports strengthened.

GDP in India remained weak, rising by 4.7% y-o-y in Q4 2013, primarily on account of tepid domestic demand. (Chart 1.8) Household spending growth slumped to 2.5% y-o-y from 3.0% in Q3, as high inflation reduced real disposable incomes. Meanwhile, fixed investment contracted by 1.1% y-o-y in Q4 after growing by 1.8% in Q3, weighed down by tighter monetary conditions and pre-election uncertainties. Nonetheless, weak private demand was offset by higher-than-expected public spending and stronger net exports, which contributed 3.9% points to overall growth in Q4.

Slower domestic demand in ASEAN-4 was partially offset by a gradual recovery in exports.

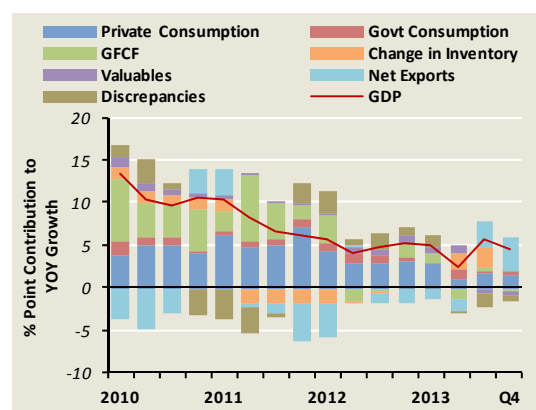
In the ASEAN-4 economies, GDP growth decelerated to 4.6% y-o-y in Q4 2013. Tighter monetary policy in Indonesia, fiscal consolidation in Malaysia, political instability in Thailand, and the disruption caused by Typhoon Haiyan in the Philippines, collectively put a dampener on domestic demand. The slowdown, however, was cushioned by a pickup in net exports, which contributed positively to GDP growth for the second consecutive quarter. Export growth remained relatively firm at 4.2% y-o-y in Q4, even as import growth dipped sharply to 0.3%, from 4.0% in Q3.

Chart 1.7
Contribution to NIE-3 Merchandise Export Growth



Source: CEIC and EPG, MAS estimates

Chart 1.8
Contribution to India's GDP Growth



Source: CEIC and EPG, MAS estimates

The Q4 increase in ASEAN-4's merchandise exports reflected robust demand for electronics parts and components from China (Table 1.2 and Chart 1.9), in line with the Asian giant's role as a conduit for finished goods exports to the G3. (See Box A.) Nonetheless, final demand in China has become more important for the region in recent years. Malaysia and the Philippines were the key beneficiaries, with strong exports of electrical goods, machinery and mineral fuel to China. (Chart 1.10) Meanwhile, the Philippines and Thailand also saw increased shipments of chemicals, plastics, and rubber, respectively. In comparison, the lift from the G3 was relatively smaller, amounting to only about half that of China's. In fact, only the Philippines has benefited significantly thus far from stronger G3 demand, mainly through higher electrical, machinery and mineral ore exports to Japan.

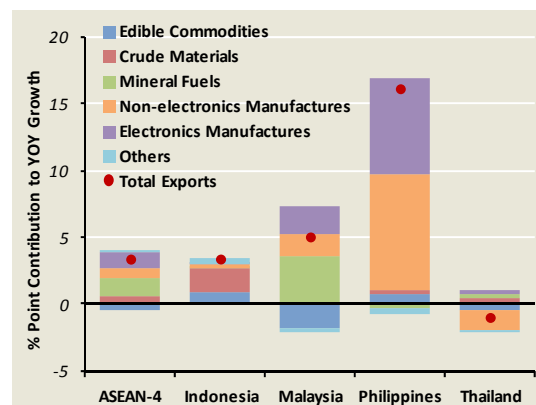
Various supply-side factors were also at play. Indonesia's export pickup was due in part to frontloading by mining companies ahead of the mineral ore export ban in January this year. Meanwhile, some of the underperformance of Thailand's exports reflected deteriorating price competitiveness in rice exports. The recovery in manufacturing exports has also been weak, due to capacity constraints from a lack of investment previously.

Inflation trends in G3 and Asia diverged in Q4 2013.

Overall G3 inflation continued to trend down in Q4 2013 to 1.1% y-o-y, after an uptick to 1.4% in Q3. (Chart 1.11) While prices in Japan rose for the second consecutive quarter, lower transport costs was a key contributor to the fall in US inflation. The Eurozone saw the strongest downward pressures on headline inflation, owing to weaker services inflation caused by persistent labour market slack.

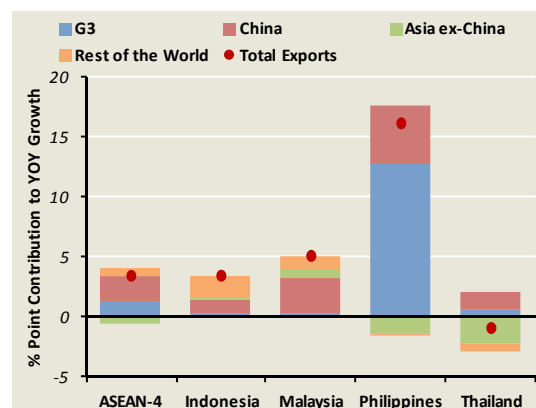
In Asia ex-Japan, CPI inflation edged up to 4.4% y-o-y in Q4 from 4.2% in Q3, on the back of faster price rises in China and the ASEAN economies. China's slightly higher inflation rate was due to a more rapid increase in vegetable prices. In comparison, ASEAN-4 CPI inflation rose considerably, from 3.8% in Q2 to a five-year high of 5.6% in Q4. The steep hike was driven by subsidy rationalisation in Malaysia and higher food prices in the Philippines due to Typhoon Haiyan, even as inflation in Indonesia remained elevated as a result of previous increases in administered prices.

Chart 1.9
ASEAN-4 Export Growth by Product
in Q4 2013



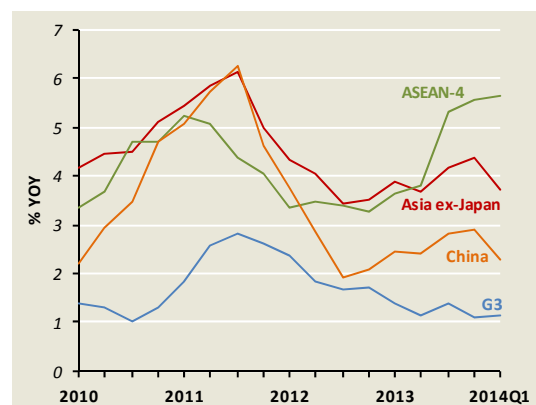
Source: CEIC and EPG, MAS estimates

Chart 1.10
ASEAN-4 Export Growth by Destination in
Q4 2013



Source: CEIC and EPG, MAS estimates

Chart 1.11
G3 and Asia Headline CPI Inflation



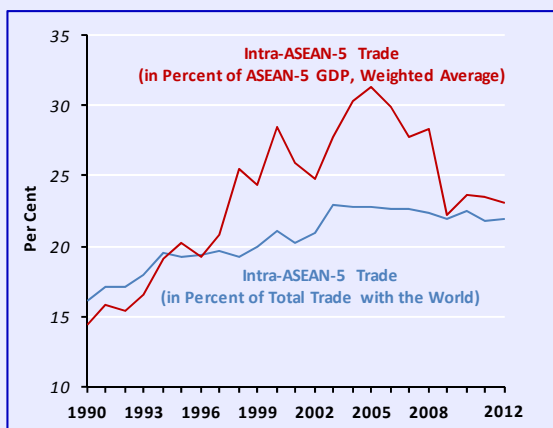
Source: CEIC and EPG, MAS estimates

Box A

Integration as a Source of Resilience: An Analysis of Trade Linkages in ASEAN^{1/}

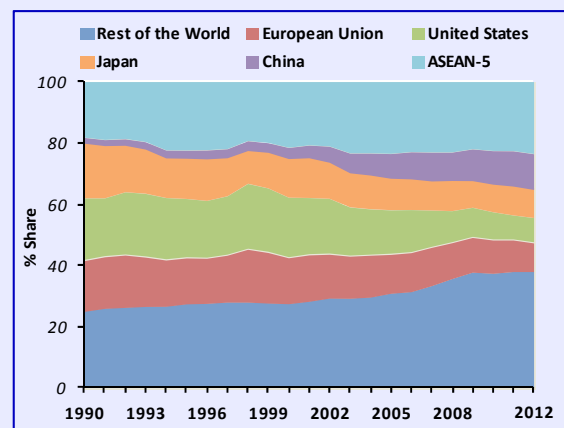
Trade ties have grown stronger within the Southeast Asian region over the past three decades. Intra-regional trade among ASEAN-5^{2/} economies currently accounts for more than 20 per cent of the region's total trade with the world, a larger share than the region's trade with China, Japan, the United States, or the European Union. (Charts A1 and A2) As the region moves forward to establish an ASEAN Economic Community, intra-regional linkages are likely to become even stronger in the future. This box examines the nature and implications of trade linkages and spillovers within ASEAN-5, and in particular whether such linkages have become a source of resilience for these countries against extra-regional shocks.

Chart A1
Intra-ASEAN-5 Trade



Source: IMF Direction of Trade Database and IMF staff estimates

Chart A2
ASEAN-5: Exports by Destination



Source: IMF Direction of Trade Database

The ASEAN-5 Region has Become Increasingly Integrated with the Global Economy, but Trade within the Region has Grown Even Faster

Since the second half of the 1980s, export-oriented growth strategies have facilitated the expansion of ASEAN-5 trade networks across the region and beyond, with total trade expansion outpacing GDP growth until the mid-2000s. Over that period, intra-ASEAN-5 trade grew faster than the region's total. Since then, the share of intra-ASEAN-5 trade in the region's total trade has stabilised at around 22% (Chart A1), and also at a similar share of the region's exports.^{3/} (Chart A2) China has emerged, over the past decade, as a major destination for the region's exports.^{4/}

While Total Exports from ASEAN-5 are Heavily Concentrated in Intermediate Goods, Consumer Goods Show Growing Importance in Intra-regional Trade

A striking feature of ASEAN-5 exports has been their increasing concentration in intermediate goods, which account for about two-thirds of total exports. (Chart A3) This reflects the region's integration in global

^{1/} This box was contributed by Rodrigo Cubero, Shanaka Peiris, and Dulani Seneviratne (International Monetary Fund, IMF), and Phurichai Rungcharoenkitkul (Bank of Thailand, BOT, on secondment at the IMF at the time the research was conducted). The box is based on Cubero *et al.* (2014), and a shorter version of it was published in IMF (2013). The views in this box are solely those of the authors and should not be attributed to the BOT, IMF or MAS.

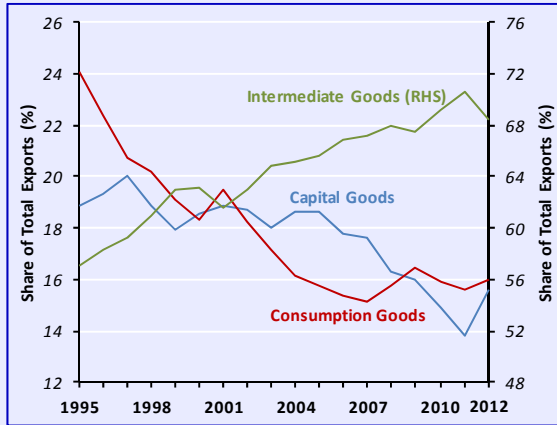
^{2/} For the purposes of this box, ASEAN-5 comprises Indonesia, Malaysia, Singapore, Thailand and the Philippines.

^{3/} While the share of intra-regional exports in ASEAN-5 is low compared to those for larger regions (around 50% for North America and 67% for the European Union), it is quite significant considering the small share of ASEAN-5 in global GDP.

^{4/} Qualitatively similar findings are obtained if value-added trade data is used instead. See IMF (2014).

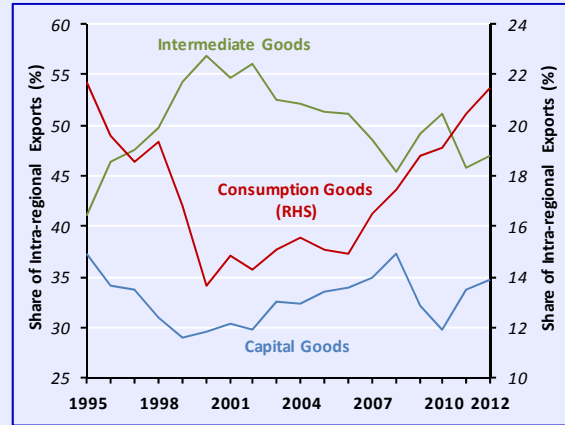
supply chain networks, particularly through China.^{5/} The region’s specialisation in exports of raw materials and manufacturing inputs and the rapid increase in ASEAN-5 trade with China since the 2000s are thus two sides of the same coin.

Chart A3
ASEAN-5 Exports by Category



Source: UN Comtrade Database and IMF staff estimates

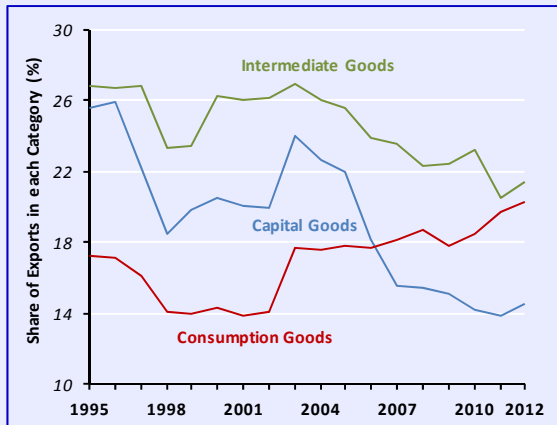
Chart A4
Intra-ASEAN-5 Exports by Category



Source: UN Comtrade Database and IMF staff estimates

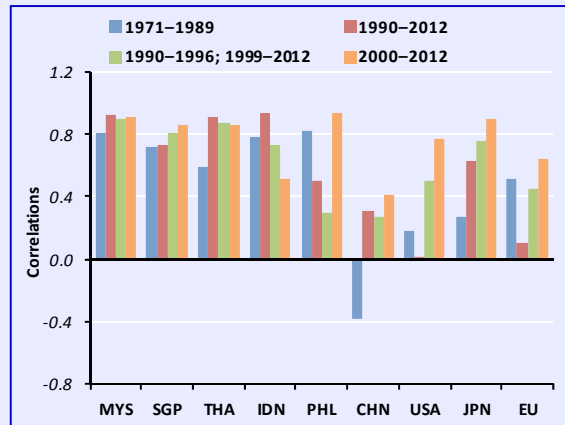
However, when one looks at intra-ASEAN-5 trade in particular, the picture is different: exports of final consumption goods within ASEAN-5 have seen a significant uptrend in the 2000s, whether measured as a share of total intra-regional exports or as a share of total ASEAN-5 exports of consumption goods to the world. (Charts A4 and A5) This points to the growing significance of domestic consumption as a potential source of short-term growth and resilience for the region.

Chart A5
Intra-ASEAN-5 Exports by Category



Source: UN Comtrade Database and IMF staff estimates

Chart A6
GDP Growth Correlations for ASEAN-5



Source: IMF World Economic Outlook and IMF staff estimates

Note: For ASEAN members, the correlations are with respect to the rest of ASEAN-5.

Business Cycles for ASEAN-5 Countries have Become More Synchronised within the Region, and with Major Trading Partners

As intra-regional integration deepens, ASEAN-5 countries exhibit strong and increasing contemporaneous co-movement in GDP growth among each other. (Chart A6) The clear exception is Indonesia, likely a result of its more closed economy; with its large domestic market, Indonesia’s share of trade in GDP is by far the lowest in the ASEAN-5 group.

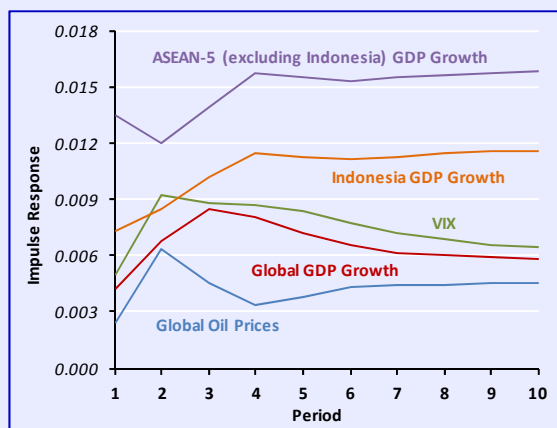
^{5/} See IMF (2011).

Similarly, the co-movement of growth rates between ASEAN-5 countries and their major trading partners has grown stronger, particularly over the last decade. There is thus no evidence of “decoupling” between these Asian countries and the advanced economies. The region’s business cycle synchronisation with China has sharply increased over the last decade, but remains below those with the US and Japan. This suggests that the Chinese economy may be operating as a conduit for global shocks to ASEAN.

Consistent with Greater Intra-ASEAN Integration, Intra-regional Demand is Found to be an Important Driver of ASEAN-5 Growth (Except for Indonesia)

A Bayesian Vector Auto-Regression (VAR) analysis based on quarterly data over the period 1994–2013 shows that economic growth in ASEAN-5 (excluding Indonesia) is highly responsive to intra-regional shocks as well as shocks to Indonesia and, to a lesser extent, to global growth and global financial conditions (as reflected by the VIX index). (Chart A7) In contrast, Indonesia’s growth does not appear to be affected by global growth or the VIX, but by oil prices and intra-ASEAN-5 growth. Meanwhile, the effect of China’s growth shocks on ASEAN-5’s GDP growth does not appear to be statistically significant when controlling for global factors (and was dropped from the chart). This is consistent with the notion that, despite its strong trade ties with the region, China serves mainly as a vehicle for the transmission of global shocks through the supply chain. In other words, because of vertical industrial integration with China, whereby parts manufactured in ASEAN-5 are assembled in China for further export to advanced economies, shocks to global demand may be transmitted to ASEAN-5 via China. In comparison, the impact of domestic demand from China on ASEAN-5’s growth may be lower, although it seems to have been increasing over the most recent period, as noted in IMF (2014).

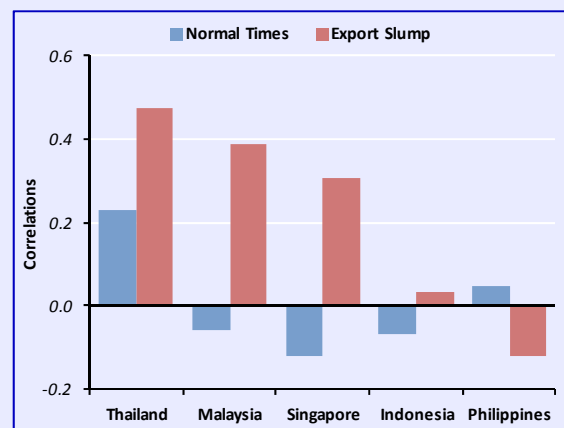
Chart A7
Accumulated Response of ASEAN-5 (excluding Indonesia) Growth to Cholesky One S.D. Innovations



Source: IMF staff estimates

Note: Only statistically significant responses are shown.

Chart A8
Correlation between Growth of Domestic Demand and Exports across Episodes of Normal and Weak Export Growth



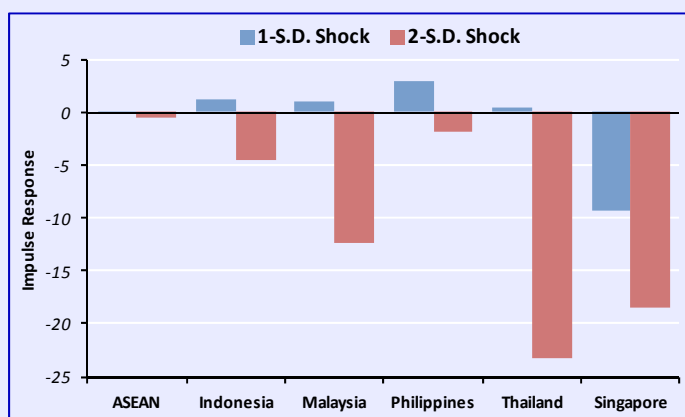
Source: IMF staff estimates

Moreover, Domestic Demand in ASEAN-5 Appears to be Moderately Resilient to External Shocks

During the Global Financial Crisis (GFC), ASEAN-5 exports collapsed, bringing down with them the region’s domestic demand. By contrast, the aftermath of the GFC led to a period of sub-par (though positive) external demand for ASEAN-5 exports, yet the region’s domestic demand remained robust. This is indicative of some degree of domestic demand resilience in ASEAN. Indeed, an analysis of simple contemporaneous correlation coefficients between the q-o-q SAAR growth rate of domestic demand and that of total exports from the region since 2000 shows that the correlation is much lower when external demand is normal or strong than when it is in a slump (defined as export growth being lower than half a standard deviation from the average). (Chart A8)

This “weak decoupling” hypothesis, whereby domestic demand dynamics are robust against moderate external shocks within a certain threshold, is confirmed by the evidence. Estimates from a threshold model for the period Q1 2000 – Q2 2012 suggest that in Malaysia and Thailand, domestic demand is able to withstand one-standard deviation shocks, but is substantially affected once the shock size is doubled. (Chart A9) Domestic demand in Singapore, meanwhile, is found to be responsive to external shocks of all sizes, with impulse responses proportional to the shock size—a manifestation of the country’s strong degree of openness. By contrast, domestic demand appears to be more resilient in the Philippines and, particularly, Indonesia. For ASEAN-5 as a bloc, there are also significant threshold effects, with the threshold higher than for individual countries. Therefore, domestic demand for ASEAN-5 as a whole appears to be more resilient than the sum of its parts, likely reflecting the synergy afforded by greater intra-regional integration.

Chart A9
Next-quarter Impulse Response of Domestic Demand to Export Shock



Source: IMF staff estimates

Putting It All Together

ASEAN-5 countries have developed strong intra-regional and international trade linkages, consistent with a high degree of business cycle co-movement among themselves and with key trading partners. However, while most ASEAN-5 countries’ GDPs are vulnerable to global and regional shocks, their domestic demand dynamics seem relatively resilient to external shocks, barring very large ones. This resilience of intra-regional demand may have been supported by the increasing intensity of intra-regional trade in final consumption goods. Interestingly, despite its role as a key trading partner for ASEAN-5, growth in China does not appear to have had much of a direct impact on growth in the region after global demand is controlled for, at least over our sample period. This suggests that trade with China may have been mainly a conduit for global demand shocks to ASEAN-5, although this may be changing in light of the growing importance of China as a source of final demand for the region. Going forward, deepening intra-regional integration and the continued building of macroeconomic and financial buffers against external shocks could further boost growth and resilience in ASEAN-5.

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1.2 Domestic Economy

Economic Activity Firms amid Transition to Productivity-driven Growth

The Singapore economy continued on a moderate growth path, despite bouts of volatility.

The recovery of the domestic economy, highlighted in the October 2013 *Review*, gained traction towards the end of the year with a strong and broad-based sequential pickup in GDP growth in Q4. Amid improving economic conditions in the external environment, the Singapore economy closed 2013 on a firm note and clocked a full-year growth of 4.1%.

It was also pointed out in the previous *Review* that the Singapore economy had entered a modest growth and heightened volatility phase. Indeed, this profile has continued into early 2014. (Chart 1.12) The latest *Advance Estimates* indicate that GDP growth came in almost flat at 0.1% on a q-o-q SAAR basis in Q1 2014, reflecting some consolidation in the Jan–Feb period. However, in March, manufacturing output rebounded which should provide some upside to the GDP outturn for Q1 2014.

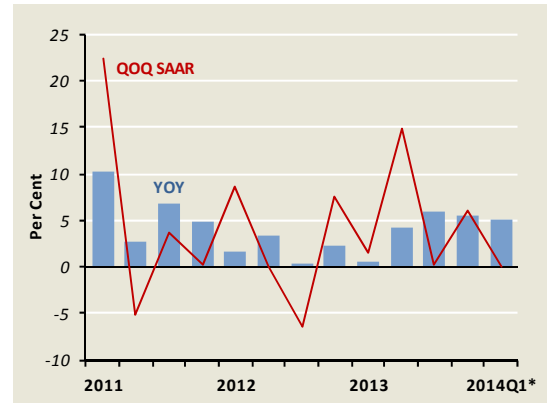
The first part of this section charts out in more detail the growth profile of the Singapore economy over the past six months, while the second part highlights the key drivers of GDP growth in 2013 as the economy continues its transition to sustainable higher productivity growth.

The trade-related industries staged a strong rebound in Q4 2013 ...

The recovery in the external economic environment gathered pace in the second half of 2013. As a result, the trade-related sectors in Singapore experienced a synchronised upturn in Q4 2013.

EPG's new quarterly index, the Corporate Conditions Index (CCI), also picked up alongside a strengthening in external-facing industrial activity. (Chart 1.13) The index aggregates the global revenue performance of top publicly listed firms across the major

Chart 1.12
Singapore's GDP Growth



* Advance Estimates.

Chart 1.13
Corporate Conditions Index



Source: EPG, MAS estimates

trade-related clusters/industries in the Singapore economy.¹

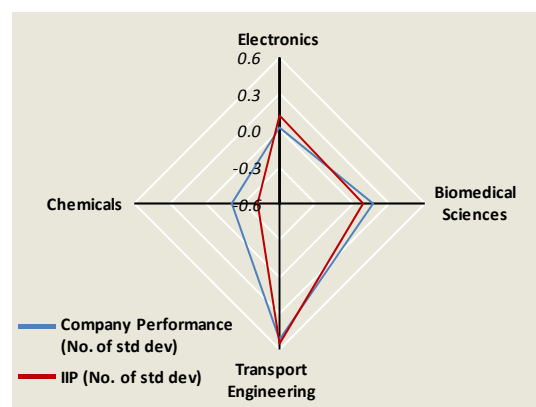
This summary statistic is useful as a bellwether of the global business climate as it captures demand conditions from the perspective of firms and complements EPG's assessment of the state of the trade-reliant domestic economy. Chart 1.14 shows the deviation of global revenues from trend growth for the top companies in each of the manufacturing industries in Q4 2013 (blue diamond). A positive reading indicates that these companies exceeded trend growth in the current quarter, and vice versa. The global revenue performances of these firms were broadly in line with the growth profiles of the domestic manufacturing clusters (red diamond), with most clusters recording above-trend growth in Q4 last year.

Within the manufacturing sector, the transport engineering cluster saw the strongest performance, on the back of robust order books of marine engineering companies. In particular, secular trends such as rising energy consumption have generated positive spillover effects on the marine & offshore industry. Electronics firms were buoyed by the cyclical recovery in global IT demand. In comparison, chemicals firms were weighed down by overcapacity, as well as compression in refining margins in the upstream segment.

... which spilled over to domestic financial services.

The generally buoyant performance of the trade-related industries also had positive spillovers on the domestic financial services industry. Lending to firms in trade-related industries rose by 7.0% q-o-q in Q4 last year, from a 0.6% contraction in Q3, with loans to the manufacturing sector recovering after two consecutive quarters of contraction. Offshore non-bank lending picked up pace to expand by 5.6% q-o-q, compared with 3.6% in the previous quarter. Loans extended to all geographical regions registered positive growth for the first time since Q3 2012. (Chart 1.15)

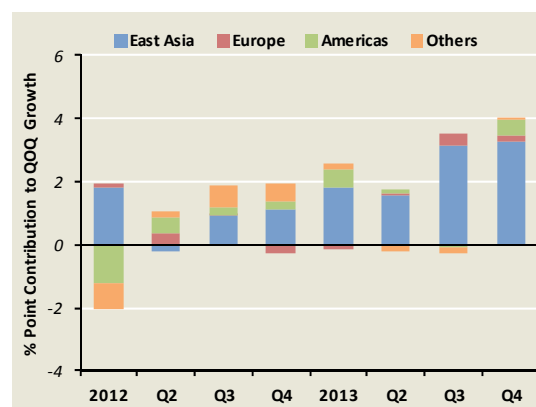
Chart 1.14
Deviation from Trend Growth* (Q4 2013)



Source: EPG, MAS estimates

* Trend growth is defined as the rolling mean over the last four quarters.

Chart 1.15
Contribution to ACU Non-bank Lending



¹ The Corporate Conditions Index is a quarterly index based on the global revenues of the listed parent companies of the top 25 companies in Singapore (Source: *DP Information Group Top 1000 Database*, 2012). Global revenues were used as most of the top firms in Singapore are not listed on the SGX. The 25 companies in the index span the five trade-related industries in manufacturing and services, namely Biomedical Sciences (BMS), Chemicals, Electronics, Transport Engineering, and Transport & Storage Services. These firms account for around 45% of output from these activities. The index includes a mix of foreign and Singapore MNCs.

The domestic-oriented industries saw a moderation in growth in Q4 2013.

While the external-facing industries rebounded strongly in Q4 2013, growth momentum in the domestic-oriented industries eased slightly towards the end of last year. Specifically, the construction sector grew by 1.4% q-o-q SAAR, its slowest quarterly expansion in the past three years. The sequential deceleration was caused partially by delays in infrastructural and residential housing works, and also reflected the high base effect arising from the completion of major projects.

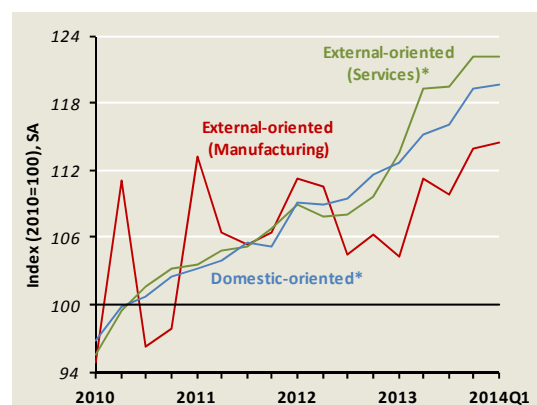
Meanwhile, activity in the consumer-facing clusters was sluggish in Q4 2013. In the domestic retail sector, growth continued to be weighed down by weak vehicle sales. While discretionary expenditures, which include spending on items such as wearing apparel, watches & jewellery, picked up in Q4, these gains were fully offset by reduced takings of supermarkets and sundry shops. Meanwhile, the performance of the food services cluster dipped further over the same period due to lower dine-out and catering volumes.

GDP growth flattened in Q1 2014, reflecting a slowdown in manufacturing ...

The strong growth momentum witnessed towards the end of last year softened in the first two months of 2014. In particular, EPG's Economic Activity Index shows that external-oriented industries experienced some pullback in early 2014 with the easing in manufacturing activities. (Chart 1.16)

The moderation of economic activity in the US, due in part to inclement weather conditions, took a toll on demand for Singapore's domestic exports. Notably, domestic exports to the US inched up by a mere 0.4% q-o-q SA in Q1 2014, while shipments to Japan and Europe rose by a robust 13.3% and 8.7% respectively. Tepid external demand in turn dampened domestic production activity. For the quarter as a whole, manufacturing output growth eased to 0.5% q-o-q SA in Q1 2014, following a 3.8% expansion in the preceding quarter. Nonetheless, the transitory factors that weighed on Jan–Feb performance dissipated toward the end of the quarter. Specifically, the Index of Industrial Production rebounded in March, underpinned by strong growth in the biomedical cluster.

Chart 1.16
EPG's Economic Activity Index



Source: EPG, MAS estimates

* Readings for Q1 2014 are based on an average of Jan–Feb data.

... and weakness in financial services, as markets were hit by several external events.

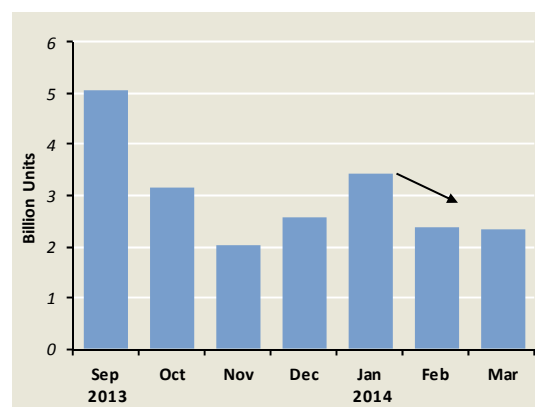
Concomitantly, activity in the financial services industry dipped in early 2014. Specifically, the sentiment-sensitive segments experienced some headwinds as market jitters came to the fore, in part due to weakness in China's economic data, expectations of rising global interest rates and the escalation of geopolitical tensions in Ukraine. As a result, trading activity on the local bourse experienced a noticeable step-down in February 2014. (Chart 1.17) Similarly, fund raising activities also witnessed a pullback, with the amount raised from IPOs declining by 42.6% in Q1.

Turning to the financial intermediation segments, the pace of expansion in domestic non-bank lending eased in Jan–Feb to an average of 0.9% m-o-m, from 1.7% the quarter before. Business lending ceded momentum, with loans to trade-related industries registering the largest slowdown. (Chart 1.18) The average 0.7% increase in Jan–Feb was less than a third the growth rate seen in Q4 2013. Meanwhile, the continued tempering of mortgage lending led to subdued consumer loan growth. In contrast, offshore non-bank loan growth remained firm over the same period. While lending to East Asia slowed, activity was bolstered by the continued rise in loans extended to the Americas.

Domestic-oriented sectors picked up in Q1 2014.

Meanwhile, domestically-focused activities as a whole picked up pace this year. In particular, the construction sector started 2014 with a stellar performance, and is estimated to have registered a 10.7% q-o-q SAAR expansion in Q1. This was driven by a roll-out of new major public sector initiatives. Certified payments of civil engineering activities surged in Jan–Feb 2014 as large-scale infrastructural projects, including Changi Airport Terminal 4 and healthcare facilities, such as Sengkang General and Community Hospitals, commenced. (Chart 1.19) Meanwhile, ongoing construction of the Downtown and Thomson MRT lines, and onsite activities related to residential building projects continued apace. More private residential units reached completion in Q1 this year compared with Q4 2013. (Chart 1.20)

Chart 1.17
SGX Average Daily Turnover



Source: SGX

Chart 1.18
Contribution to Domestic Business Lending

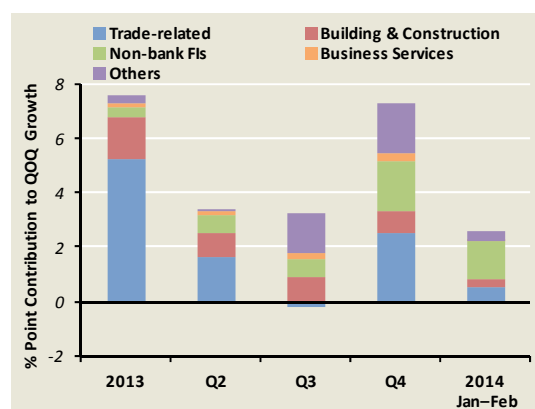
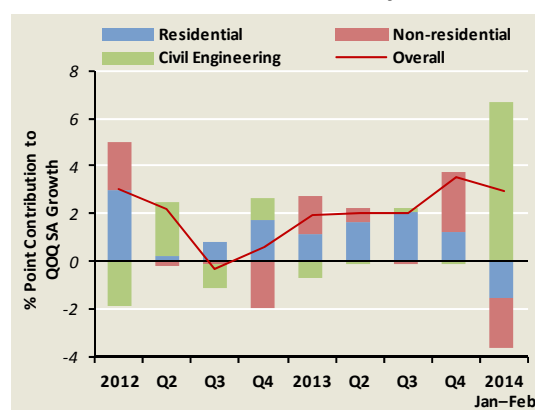


Chart 1.19
Construction Certified Payments



Source: EPG, MAS estimates

Activities in the consumer-facing services also showed early signs of a pickup in 2014 following a sluggish performance in Q4 2013. In particular, domestic retail trade, which was weighed down by tepid vehicle sales following the introduction of tighter financing rules last year, turned around in Jan–Feb 2014. Discretionary purchases also rebounded as consumers bought more big-ticket items on the back of improving economic sentiment. Demand for food services was supported by an improvement in earnings of eateries and cafes, following a decline in Q4 2013. (Chart 1.21) Additionally, services clusters that cater more to corporates remained on a sequential expansionary path into 2014. The information and communication segment, particularly IT services, as well as professional business services, including legal, accounting and management consultancy services, continued to register gains.

Chart 1.20
Private Sector Residential Units Completed

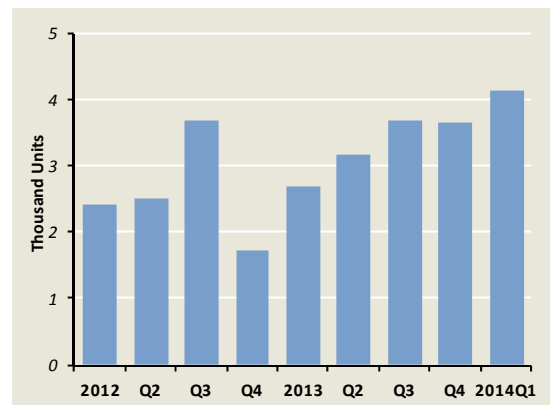
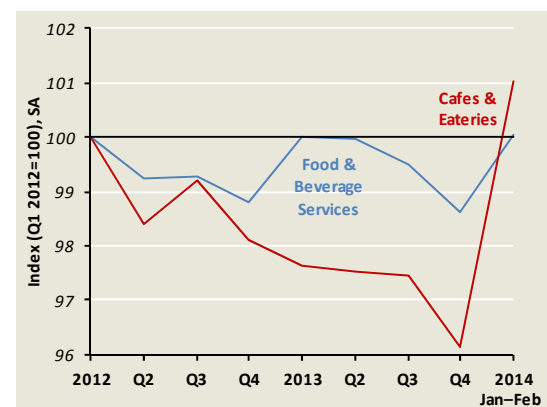


Chart 1.21
Food & Beverage Services Volume Index



2013 in Perspective: Some Rebalancing in Growth Drivers

Restructuring has proceeded even as the economy responded to cyclical factors.

2013 marked the fourth year since Singapore embarked on its national economic restructuring process. Over the last few years, greater weight has been placed on creating more inclusive growth supported by higher productivity. In 2013, these adjustments continued and the resultant shifts have played out across different dimensions of the economy. Even as restructuring proceeded, cyclical developments provided a boost to growth. A decomposition of GDP growth from different perspectives shows the dynamics resulting from these structural and cyclical interactions.

The global recovery provided a fillip to external-facing sectors.

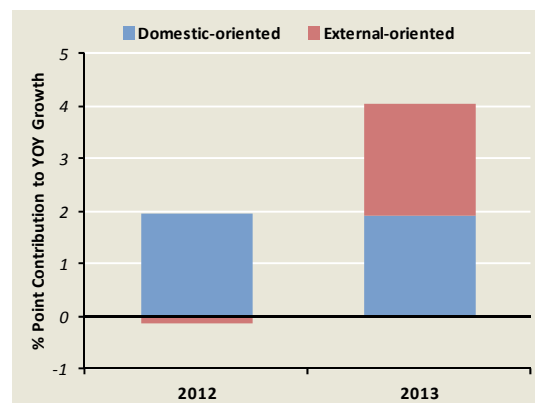
The 4.1% expansion in GDP growth in 2013 was more than twice that of 2012. From the *production perspective*, the improvement in growth came from the turnaround in the external-oriented industries which accounted for half of GDP growth (Chart 1.22), with the bulk of the contribution coming from the services industries. (Chart 1.23) The smaller contribution from the domestic manufacturing sector was atypical. In fact, in the 2000s², the domestic manufacturing sector contributed around a third to growth in the external-oriented industries, significantly higher than its 20% contribution in 2013.

However, the domestic manufacturing sector was weighed down by firm-specific developments, especially in the biomedical cluster.

The weakness in the domestic manufacturing sector in 2013 was due, in part, to idiosyncratic firm-specific factors. These factors appear to have an increasingly large influence on the performance of the domestic manufacturing sector, compared with broader variables such as the external macroeconomic environment. To further quantify such effects, EPG conducted a study to estimate the importance of various factors in driving the underlying volatility of production growth. Specifically, the methodology of De Veirman and Levin (2012), used to analyse firm-specific volatility for Japanese firms over the period 1986–2005, was adapted to examine the performance of Singapore's industrial clusters.³

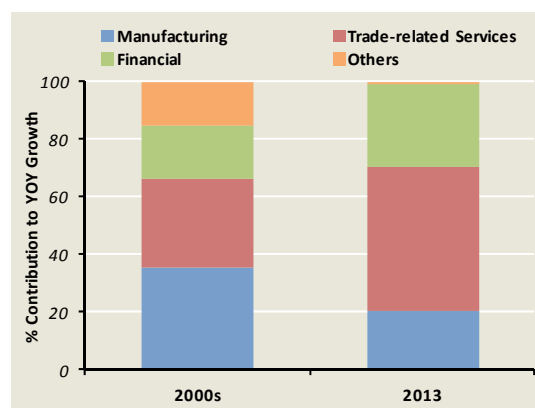
A fixed-effects panel regression was used to identify the contributions of systemic and idiosyncratic factors to quarterly real manufacturing output growth across 19 manufacturing sub-clusters or segments.⁴ Based on the regression estimates over the period Q1 2000 – Q1 2014⁵, domestic production growth was

Chart 1.22
Contribution to GDP Growth (Production)



Source: EPG, MAS estimates

Chart 1.23
Share of Contribution of External-oriented Sectors



Source: EPG, MAS estimates

² Only non-recessionary years were included. Crises years 2001 (IT Downturn), 2003 (SARS) and 2008–09 (GFC) were omitted.

³ De Veirman, E and Levin, A T (2012), "When did firms become more different? Time-varying firm-specific volatility in Japan", *Journal of the Japanese and International Economies*, Vol. 26(4), pp. 578–601.

⁴ Interaction terms between the factors were omitted due to their statistically insignificant explanatory power.

⁵ EPG's analysis was conducted at a sub-cluster level instead of a firm-level basis due to data constraints. Jan–Feb data was used for Q1 2014.

decomposed into the following factors:

$$production_{i,t} = constant + segment_i + external_t + idiosyncratic_{i,t}$$

where *constant* measures the average pace of expansion in the overall manufacturing sector; *segment_i* captures the deviation between the sector’s trend growth rate and the average growth rate of the manufacturing sector; *external_t* controls for the impact of global macroeconomic developments at a given time, and *idiosyncratic_{i,t}* (residual) captures firm-specific idiosyncratic developments within a segment/sub-cluster.

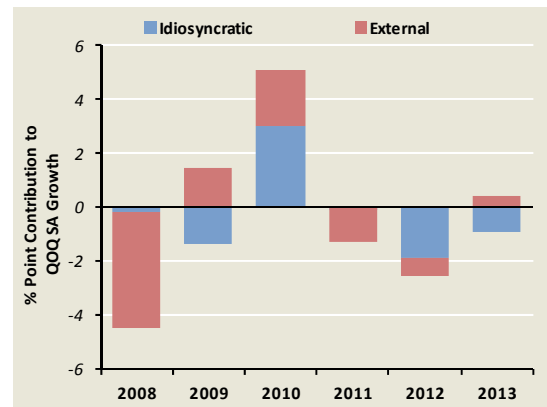
To identify the estimated deviation from trend growth for the overall manufacturing sector attributable to external and idiosyncratic factors, results from the regression estimates were summed across the 19 manufacturing segments and the equation specifying deviation from trend growth ($production_t - constant$) becomes:

$$Deviation\ from\ trend_t = external_t + idiosyncratic_t$$

Chart 1.24 shows that while negative growth effects from the external macroeconomic environment (represented by the red bars) have subsided over the past two years, the persistence of domestic idiosyncratic factors (represented by the blue bars) continued to weigh on overall manufacturing growth. Over the last two years, the idiosyncratic component is larger than the external macroeconomic component. This suggests that idiosyncratic effects have amplified the cyclical effects posed by the relatively subdued macroeconomic environment during this period.

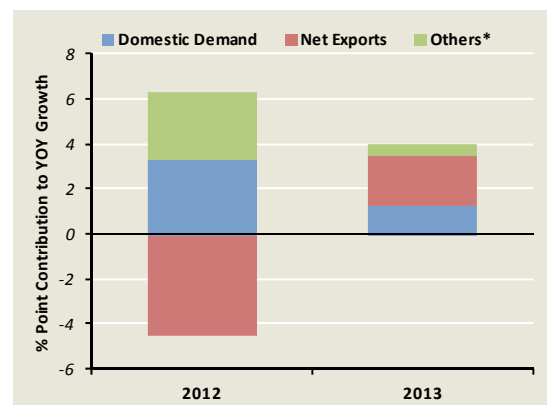
A further decomposition of the idiosyncratic factor suggests that the biomedical cluster accounted for the bulk of the effect in 2013. Over the last few years, several large pharmaceuticals companies were confronted by a “patent cliff”. Given that Singapore is a major production site for the active ingredients in various blockbuster drugs, the expiration of patents for some of these drugs during 2011–12 reduced output and exports in 2013. Nonetheless, the drags arising from the effects of the patent expiries should ease as the pharmaceuticals segment introduces new products and develops a strong base of biologics products.

Chart 1.24
Deviation from Trend Growth of Overall Manufacturing Production



Source: EPG, MAS estimates

Chart 1.25
Contribution to GDP Growth (Expenditure)



* Includes changes in inventories and statistical discrepancy.

There was a turnaround in net exports ...

The rebound in the external-oriented sectors in 2013 corroborates the turnaround in net exports from the *expenditure perspective*. In 2013, net exports contributed a significant 2.2% points to GDP growth, compared to -4.4% points in 2012. (Chart 1.25) This marked a return to externally-led growth—net exports contributed an average of 1.8% points to GDP growth in the 2000s.

Mirroring the findings of the production approach, support for growth from the expenditure perspective was underpinned by higher exports of services. In 2013, services exports grew by 3.7%, outpacing the 0.7% growth in exports of goods. Within services exports, the strongest expansion was seen in modern services, which added 2.9% points to overall services exports growth. (Chart 1.26) Both modern and traditional services have benefited from increasing economic activity in the region and Singapore's importance as an international financial and business centre.

... while investment in machinery and equipment fell, in tandem with the moderation in the manufacturing sector.

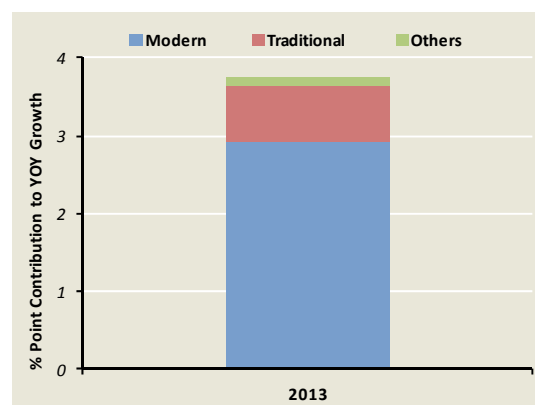
Falling imports of capital goods was also a factor behind the improvement in net exports. Imports of capital goods shrank in real terms by 4.2% in 2013, reversing the trend increase since 2010. Concomitantly, investment in machinery and equipment fell, following three years of strong growth. (Chart 1.27) These declines were probably a result of cautious sentiment within the more capital-intensive manufacturing sector, and reflect the fact that services are less capital-intensive. On average, the manufacturing sector is about two times more capital-intensive than the services sectors.

Despite better external conditions, firms saw their profits squeezed in 2013.

Notwithstanding the improvement in external demand, the *income perspective* points to a squeeze in corporate profits. The contribution of gross operating surplus (GOS) to GDP growth came down in 2013. (Chart 1.28)

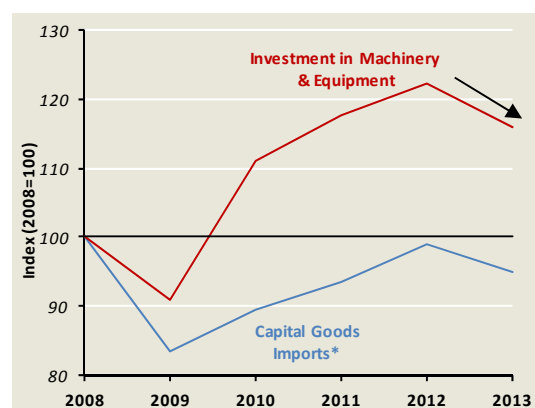
In fact, the 0.8% point contribution was the lowest since the GFC. To some extent the fall in profits was not unanticipated. Since the inception of the Economic

Chart 1.26
Services Exports Growth*



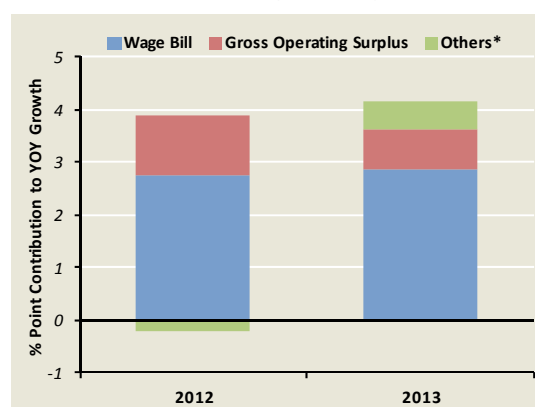
* Modern services refers to Financial, Telecoms, Computer & Information and Other Business Services. Traditional services refers to Transport and Travel services.

Chart 1.27
Investment and Capital Goods Imports



* EPG, MAS estimates.

Chart 1.28
Contribution to Nominal GDP Growth (Income)



* Includes taxes and statistical discrepancy.

Strategies Committee (ESC) in 2009, a series of labour tightening measures have been introduced with the objective of guiding the economy to a more sustainable, productivity-driven growth path. With higher labour costs, profits will likely be squeezed during this transition phase.

At the same time, firms in the domestic manufacturing sector have been confronted with falling product prices. (Chart 1.29) Compared with the rest of the economy, the domestic manufacturing sector experienced the steepest decline in product prices last year (Chart 1.30), mainly in the machinery & transport equipment sector (including electronics) and commodities⁶, which fell by 5.6% and 3.4%, respectively.

In comparison, resident labour benefited more from the stronger GDP outturn last year...

While firms bore the brunt of the adjustments in 2013, workers gained more from the firm GDP outcome last year. In 2013, the wage bill accounted for close to 70% of GDP growth, compared to an average of one-third in the pre-crisis (2004–07) period. Consequently, the wage share is now close to 43% of nominal GDP, compared to around 40% in the pre-crisis period.

The bulk of the gains in wage share is likely to have accrued to resident workers through higher employment and wage growth. In 2013, local employment accounted for more than 60% of employment growth, up from 50% in the pre-crisis period. (Chart 1.31) In addition, resident workers also saw a strong 4.3% wage growth over this period. Further details on these labour market developments will be discussed in Chapter 2.

... as the effects of the fall in productivity dissipated in 2013.

From the *supply-side* perspective, the negative impact arising from the fall in productivity dissipated in 2013, and employment continued to expand robustly. (Chart 1.32)

Chart 1.29
Unit Business Costs and Product Prices in the Manufacturing Sector

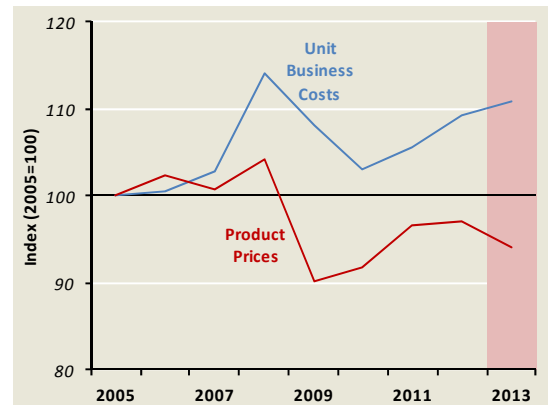
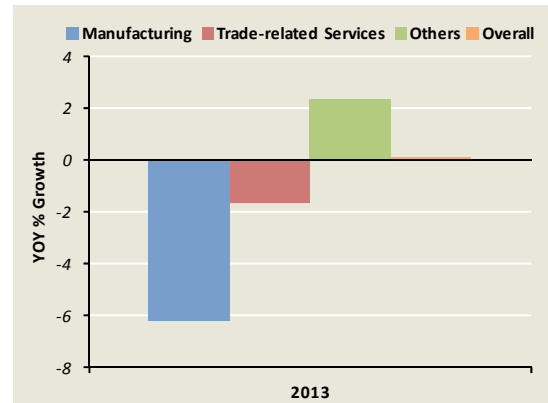


Chart 1.30
GDP Deflators by Industry



Source: EPG, MAS estimates

Chart 1.31
Employment and Resident Wage Growth



⁶ The commodities sector includes Animal & Vegetable Oils, Beverages & Tobacco, Crude Materials, Food & Live Animals and Mineral Fuel.

A further decomposition of productivity growth in 2013, based on the methodology in Nomura and Amano (2012), suggests that the improvement was supported by a modest uptick in labour quality, in part due to better-educated entrants to the workforce.⁷ (Chart 1.33) In fact, the share of tertiary educated resident workers reached 50% as of end 2013.

Furthermore, there was a smaller drag from total factor productivity, which could be due to better processes adopted by firms against tight labour constraints. Nonetheless, the contribution of capital deepening to productivity growth fell slightly from 0.7% point in 2012 to about 0.5% point in 2013.

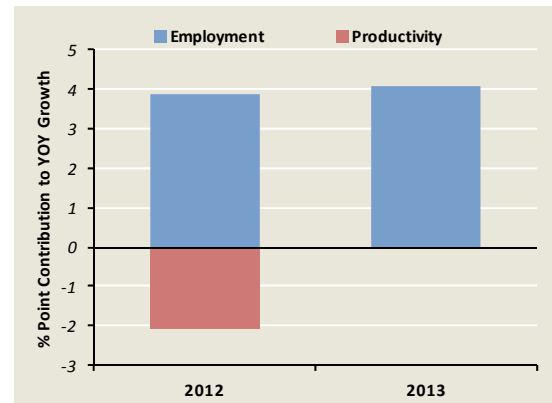
Structural and cyclical interactions reflect shifting growth dynamics.

In sum, the global recovery is lifting the performance of the domestic economy, following two years of sluggishness. The services sectors, in particular, were the main beneficiaries of this cyclical upswing. In comparison, the domestic manufacturing sector saw a weaker performance this time round due, in part, to firm-specific factors. In tandem with the moderation in the capital-intensive manufacturing sector, investment in machinery and equipment saw a pullback in 2013. This in turn had a knock-on effect on productivity. Nonetheless, the slowdown in capital accumulation was offset by the improvement in labour quality as well as a lift in total factor productivity growth underpinned by process innovations by firms.

Notwithstanding the more positive external environment, firms saw slower profit growth in 2013 due, in part, to the inevitable transitional effects of economic restructuring. Singapore's resident workers emerged as the main beneficiaries of the stronger GDP outturn last year due to higher wages and employment growth.

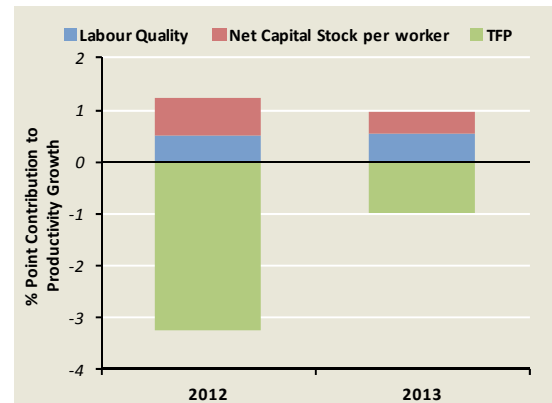
Even with the softening in Q1 2014 and ongoing restructuring, the Singapore economy should remain on a modest growth trajectory this year. The outlook for 2014 will be further discussed in Chapter 3.

Chart 1.32
Contribution to GDP Growth (Supply-side)



Source: EPG, MAS estimates

Chart 1.33
Decomposition of Productivity Growth



Source: EPG, MAS estimates

⁷ Nomura, K and Amano, T (2012), "Labor Productivity and Quality Change in Singapore: Achievements in 1974–2011 and Prospects for the Next Two Decades", *KEO Discussion Paper* No. 129.

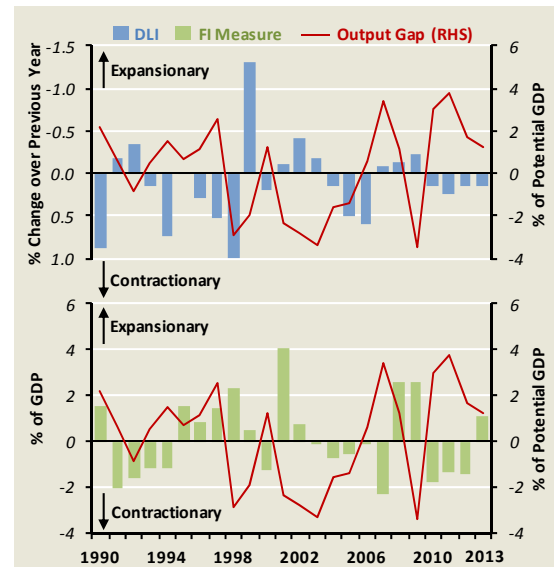
1.3 Macroeconomic Policy

Macroeconomic policy in Singapore plays a countercyclical role, while maintaining a medium-term orientation.

Macroeconomic policy settings in Singapore have been congruent with cyclical developments in the economy. Chart 1.34 plots the Domestic Liquidity Indicator⁸ (DLI) and Fiscal Impulse⁹ (FI) measure against the output gap. Points above the horizontal axis denote a positive output gap as well as an expansionary policy stance, and vice versa for points below the axis. A positive output gap signals that output is above potential, leading to inflationary pressures as the economy faces bottlenecks in meeting demand. Movements in the DLI and/or FI in the opposite direction to the output gap indicate that macroeconomic policy is countercyclical in the short run.

The chart shows that macroeconomic policy has been accommodative during downturns in the economy, such as during the GFC. However, as the output gap turned positive in 2010 due to the strong rebound in the economy, monetary and fiscal stimuli were appropriately withdrawn. The output gap stayed positive over 2012–13, as economic activity held firm even as the economy underwent supply-side restructuring. The tightening bias to monetary policy was therefore maintained over this period to ensure medium-term price stability. While fiscal policy remained broadly countercyclical in the post-crisis years, the FI turned positive in 2013. This arose as the government's surplus shrank amid its efforts to facilitate economic restructuring and help businesses and households cope with adjustment costs during the transition period.

Chart 1.34
DLI, FI and Output Gap



Source: EPG, MAS estimates

⁸ The DLI is a measure of overall monetary conditions, combining changes in the S\$NEER and the three-month S\$ SIBOR.

⁹ See the January 2002 issue of the *Review* for more details on the methodology used to calculate the FI measure.

Monetary Policy

The prevailing monetary policy stance adopted since April 2012 was maintained in 2013.

In April 2013, MAS maintained the modest and gradual appreciation of the S\$NEER policy band, with no change to the level, slope and width of the band. The tightening stance of exchange rate policy aimed to alleviate inflationary pressures and anchor inflation expectations, and was congruent with keeping the economy on a sustainable medium-term growth path. The policy stance was maintained in October 2013, taking into account the balance of risks between external demand uncertainties and rising core inflationary pressures.

The S\$NEER eased to the mid-point of the policy band over the past six months.

Over the past six months, the S\$NEER generally eased towards the mid-point of the policy band. (Chart 1.35) From October to end-November, the S\$NEER appreciated within the upper half of the band, reflecting the broad-based depreciation of the major currencies against the backdrop of the US fiscal impasse and expectations of further quantitative easing in Japan. (Chart 1.36) Following the announcement that the US Federal Reserve would begin to taper its asset purchase program, the S\$NEER weakened. Geopolitical events in Ukraine and the slowdown in China's growth exacerbated the downward pressures on the S\$NEER. Since end-March, however, the S\$NEER has strengthened.

The CPI-deflated S\$REER has generally appreciated since 2010, primarily due to the strengthening of the S\$NEER.

Using the CPI as the price deflator, the S\$REER is estimated to have risen by 17% on a cumulative basis since 2010. The S\$NEER was the main contributor to the rise in the S\$REER, as it has appreciated by a cumulative 11% since 2010, outpacing the increase in relative prices. Although Singapore's domestic prices rose by 16% between 2010 and 2013, this was offset by the 10% increase in foreign prices. (Chart 1.37)

Chart 1.35
S\$NEER

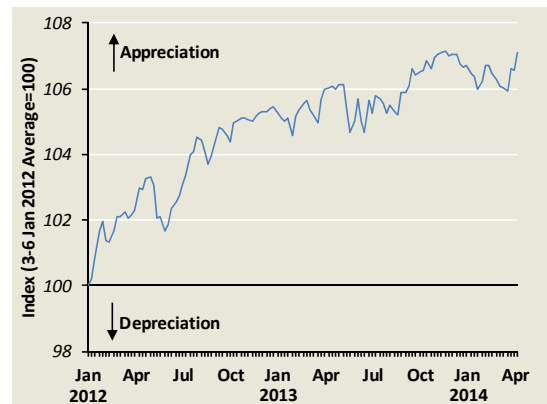


Chart 1.36
Movement of S\$ against Major Currencies

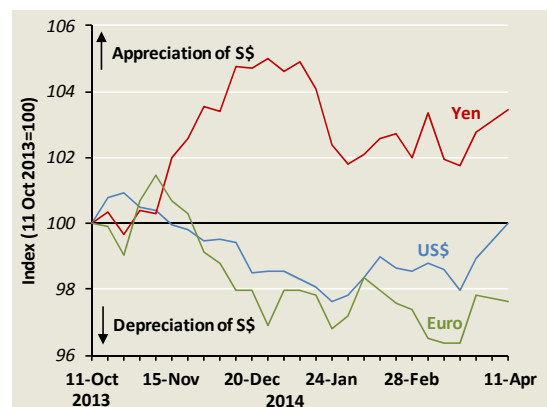
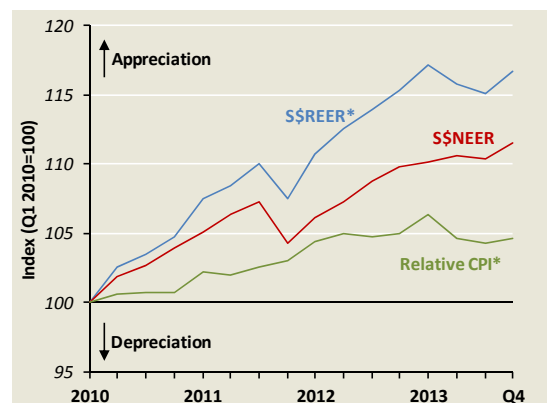


Chart 1.37
S\$NEER, S\$REER and Relative CPI



* EPG, MAS estimates.

The appreciation of the S\$REER was mainly due to a rise in the internal REER over this period.

The S\$REER can be analysed from the perspective of the relative prices of tradables and non-tradables.¹⁰ The S\$REER can be decomposed into an external and internal component, with the former representing the domestic price of tradable goods relative to the foreign price in terms of a common reference currency, and the latter corresponding to the relative price of non-tradables to tradables in the domestic market compared to abroad.

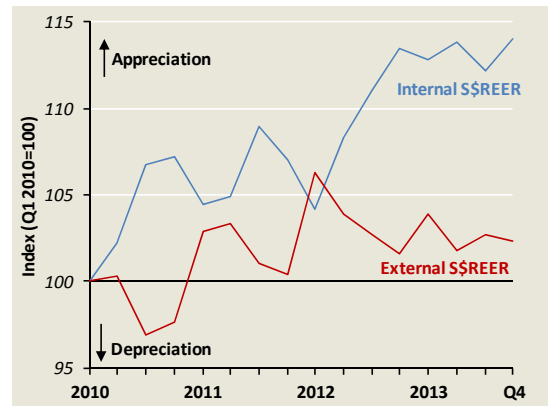
From this perspective, the appreciation in the S\$REER since 2010 was mainly due to the 14% appreciation in the internal REER, as the price of non-tradables to tradables in Singapore rose by more than that abroad amid tight labour market conditions and supply constraints in the housing and private road transport markets. (Chart 1.38) The external REER also appreciated over this period, albeit by a more muted 2.4%. Although the price of Singapore’s tradables relative to our trading partners’ fell by a cumulative 8.1%, the S\$NEER appreciated by more.

Liquidity conditions have adjusted in line with changes in the S\$NEER.

Overall liquidity conditions in the economy are captured by changes in the DLI, which reflects movements in the S\$NEER and the three-month S\$ SIBOR. Changes in the exchange rate have dominated liquidity conditions, given that domestic interest rates have largely remained unchanged at low levels amid highly accommodative monetary policy in the advanced economies.

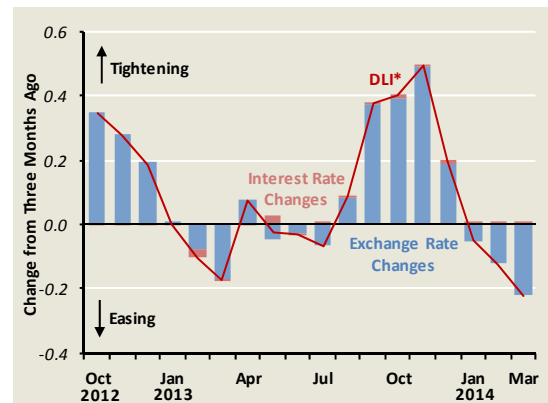
From Aug–Dec 2013, liquidity conditions tightened in line with the strengthening S\$NEER, but subsequently eased in the first three months of 2014 as the S\$NEER weakened. (Chart 1.39)

Chart 1.38
External and Internal S\$REER



Source: EPG, MAS estimates

Chart 1.39
Domestic Liquidity Indicator



* EPG, MAS estimates.

¹⁰ Please refer to the April 2013 issue of the *Review* for a more detailed analysis of the internal and external S\$REER.

The three-month S\$ SIBOR has been at a premium over the three-month US\$ LIBOR since September 2012. The interest rate differential has widened over the past six months, mainly reflecting movements in the US\$ LIBOR, which has been on a mild decline since the beginning of 2012, falling to 0.23% in March 2014. In comparison, the three-month S\$ SIBOR has inched up over the same period to an average of 0.40%. Meanwhile, the three-month S\$ Swap Offer Rate (SOR), which represents the cost of borrowing S\$ through a FX swap, has broadly followed the trend in the US\$ LIBOR. (Chart 1.40)

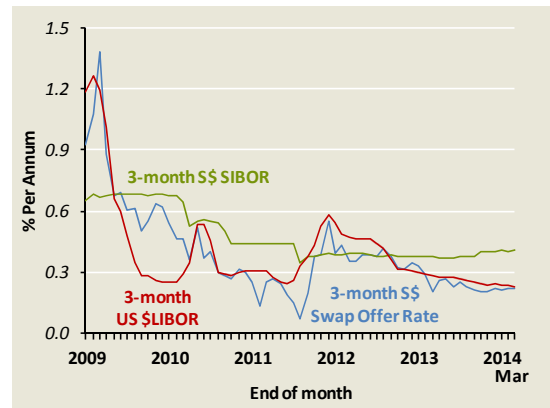
Banks' savings and fixed deposit rates edged up slightly in the first three months of this year. The former rose by 2 bps from December 2013 to 0.12% in January 2014, where it has stayed since. Banks' 12-month fixed deposit rates likewise were marginally higher at 0.33% in Jan-Mar, compared to 0.32% for the whole of 2013. (Chart 1.41)

Domestic credit growth moderated in the first two months of this year.

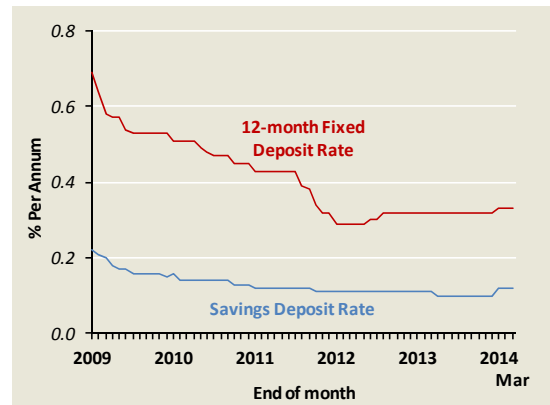
DBU non-bank loans rose by 17% y-o-y in Q4 2013, compared to 16% in Q3, driven by increased lending to the corporate sector. (Chart 1.42) Business credit expanded by 23% y-o-y in the last quarter of 2013, up from 19% in Q3, underpinned by a surge in lending to non-bank financial institutions and the general commerce sector. In contrast, growth in consumer loans continued to soften, reaching 8.9% y-o-y in Q4, the slowest growth registered since Q2 2009. Housing loan growth weakened while the stock of outstanding car loans declined due, in part, to the cumulative effects of macroprudential measures applied to property and motor vehicles, as well as the introduction of the Total Debt Servicing Ratio (TDSR) framework.

The pace of overall credit expansion has eased in early 2014 in line with the moderation in economic activity. By February, total loans rose by a slower 15% y-o-y, following some pullback in the growth of credit to businesses (19%) and consumers (7.8%).

**Chart 1.40
Interest Rates**

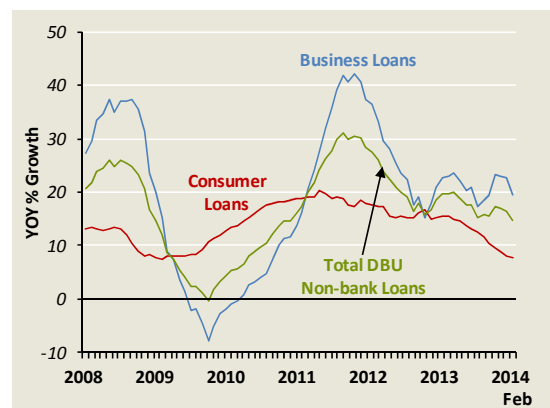


**Chart 1.41
Deposit Rates**



Note: This is the simple average of the top 10 banks' deposit rates.

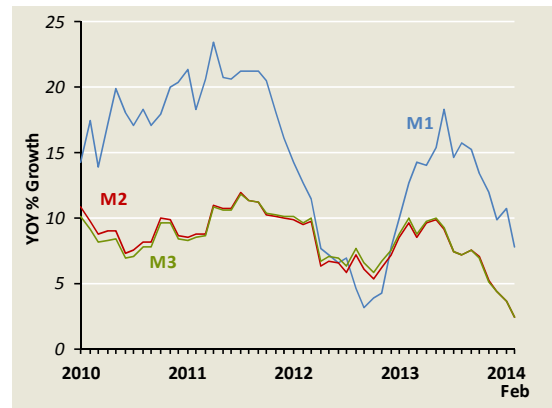
**Chart 1.42
DBU Loans to the Non-bank Private Sector**



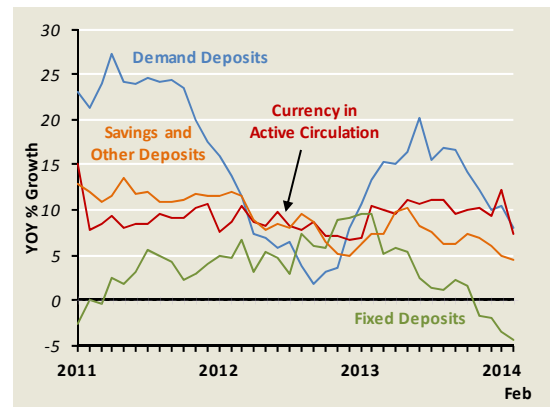
Growth in the broader monetary aggregates continued to ease in year-on-year terms.

Growth in the money supply has been on a broad downtrend since it peaked in the middle of 2013. (Chart 1.43) M1 increased by 7.8% y-o-y in February 2014, down from 15.3% in September 2013, on the back of a moderation in demand deposits. (Chart 1.44) At the same time, M2 growth eased sharply to 2.4% as fixed deposits shrank and savings deposits rose more slowly. The pace of expansion in quasi-money—fixed, savings and other deposits—has been moderating since early 2013.

**Chart 1.43
Monetary Aggregates**



**Chart 1.44
Components of Money Supply**



Fiscal Policy¹¹

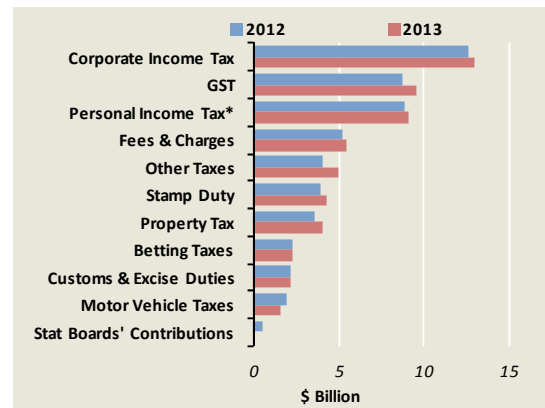
Government operating revenue rose in line with GDP growth in 2013.

The government's operating revenue increased by \$2.8 billion to \$57.1 billion (15.4% of GDP) in CY2013. This was largely driven by GST, income taxes, property tax and foreign worker levy collections.¹² (Chart 1.45) Other sources of revenue, such as taxes on motor vehicles, fell.

Receipts from GST and income taxes, the two largest components of operating revenue, was higher in 2013 as a result of the stronger performance of the economy. GST receipts went up by \$0.9 billion to \$9.6 billion as consumer spending rebounded. (Chart 1.46) Income tax collections (including statutory boards' contributions) rose slightly to \$22.0 billion in 2013, with both corporate and personal income tax collections inching up by \$0.4 billion each. Nevertheless, the rise in corporate income taxes was tempered by higher claims for capital allowances, while the pickup in personal income taxes was dampened by the one-off rebate for Year of Assessment 2013. Meanwhile, property tax increased by \$0.5 billion, as housing valuations remained firm.

In comparison, taxes on motor vehicles fell by \$0.3 billion to \$1.6 billion, due to higher disbursements of rebates for road tax and the Preferential Additional Registration Fee (PARF). Revenues from vehicle quota premiums¹³ edged up by 3.4% in 2013, compared to an average growth rate of 46% per year between 2011 and 2012. The slower growth was partly due to the fall in new car registrations in 2013. (Chart 1.47) The introduction of tighter car financing regulations in February 2013 had also dampened the pace of increase in average COE premiums.

Chart 1.45
Components of Operating Revenue



* Includes withholding tax.

Chart 1.46
GST Collections and GDP

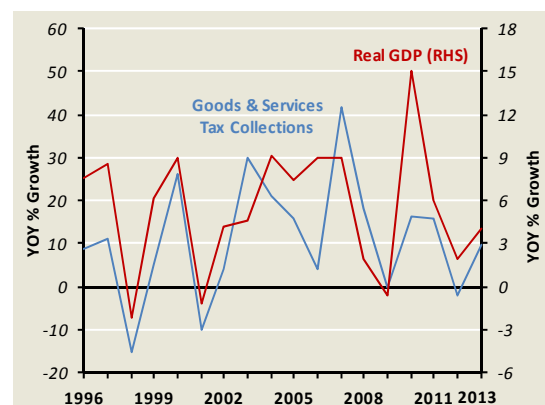
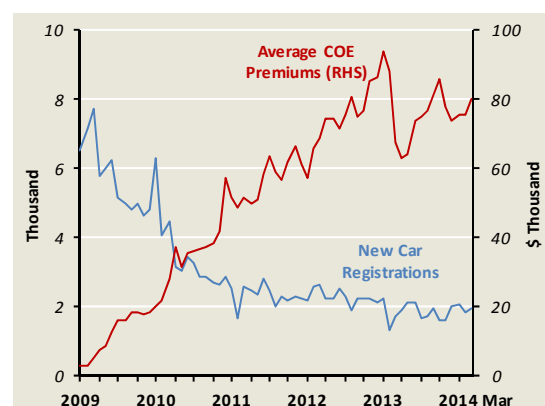


Chart 1.47
New Car Registrations and Average COE Premiums



¹¹ This section is based on the calendar year (CY), not the fiscal year.

¹² The foreign worker levy is captured under "other taxes".

¹³ Vehicle quota premiums are recorded in "fees and charges".

The increase in government expenditure was driven by operating expenses.

Total government expenditure rose by \$5.1 billion to \$52.3 billion (14.1% of GDP) in 2013. This was solely due to higher operating expenditures, since development spending actually contracted. (Chart 1.48)

Operating expenditure, which includes expenses on manpower and operating grants to statutory boards and aided educational institutions, rose by \$5.6 billion to \$40.4 billion (10.9% of GDP) last year. The Ministry of Education recorded a large increase in operating expenditure, mainly due to the provision of the seed endowment grant to the Singapore Institute of Technology. (Chart 1.49) The Ministry of Health (MOH) also posted a significant rise in operating expenses, as the needs of Singapore's ageing population began to be reflected in a greater utilisation of subsidised healthcare services. MOH channelled more funds towards public healthcare institutions and Voluntary Welfare Organisations involved in the aged care sector to implement initiatives under the ambit of Healthcare 2020. In comparison, the Ministry of National Development's (MND) operating expenditures decreased in 2013 due to lower expenditure on the Public Housing Development Programme.

Development expenditure, which comprises longer-term investment in capitalisable assets such as roads and buildings, fell by \$0.5 billion to \$11.9 billion (3.2% of GDP) in 2013. A portion of this decline can be attributed to the Ministry of Law, which spent less on compensation for land acquisitions in 2013 as compared to the year before.¹⁴ MND's development expenditures also fell, given lower requirements for the Selective En Block Redevelopment Scheme and Lift Upgrading Programme, while several major projects drew to a close. The cutbacks in development expenditure were partially offset by increased spending by the Ministry of Trade and Industry and MOH. In particular, development expenditures by MOH rose due to a ramp up in healthcare-related construction projects. These include the redevelopment of the National Heart Centre and the building of new medical facilities such as nursing homes and the Ng Teng Fong General Hospital. (Chart 1.50)

Chart 1.48
Government Expenditure

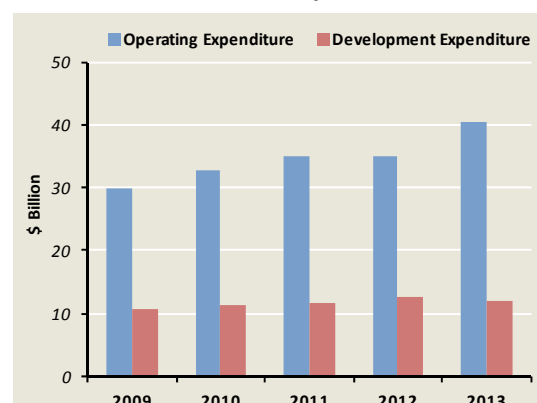


Chart 1.49
Selected Components of Operating Expenditure

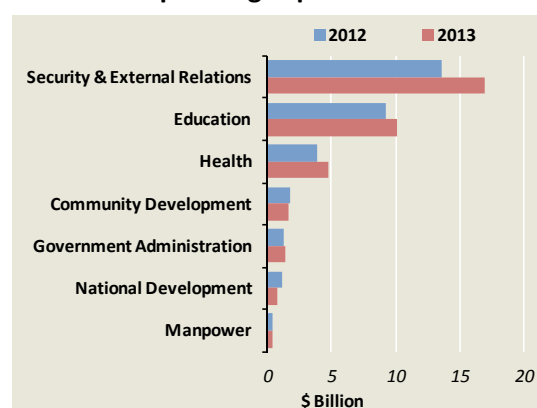
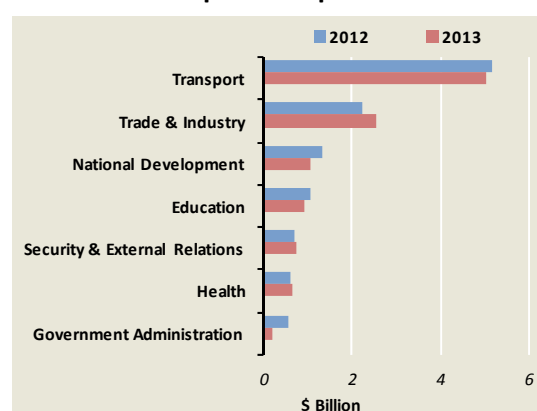


Chart 1.50
Selected Components of Development Expenditure



¹⁴ The Ministry of Law's development expenditures are captured under the "Government Administration" category.

The fiscal policy stance was expansionary in 2013.

With operating revenue exceeding total expenditure, the government recorded a primary surplus of \$4.7 billion (1.3% of GDP) in 2013, down from \$7.0 billion in 2012.¹⁵ The basic balance, which is the primary balance less special transfers excluding top-ups to endowment and trust funds, registered a surplus of \$2.5 billion (0.7% of GDP) in 2013, compared to \$6.1 billion a year earlier. (Chart 1.51)

The FI measure provides an indication of the initial stimulus to aggregate demand arising from fiscal policy. The FI was estimated at 1.1% of GDP in 2013, suggesting that the fiscal policy stance was expansionary when compared to the previous year. (Chart 1.52) The positive FI was due to increased expenditures to help businesses and households manage the transition costs associated with economic restructuring.

Chart 1.51
Government's Basic Balance

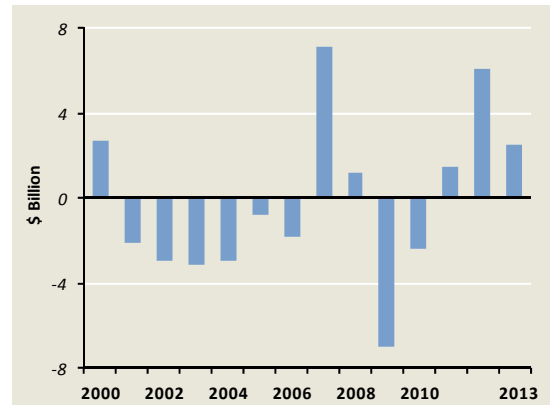
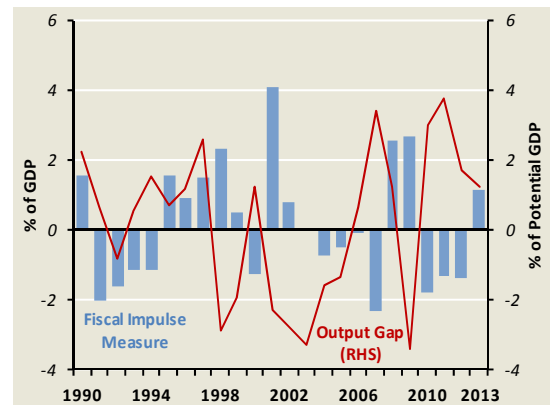


Chart 1.52
Fiscal Impulse Measure



Source: EPG, MAS estimates

¹⁵ The primary surplus/deficit is defined as operating revenue less the sum of operating and development expenditures.