Singapore Economic Update

Market Report

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NEW ZEALAND FOREIGN AFFAIRS & TRADE
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Prepared by the New Zealand High Commission in Singapore

Summary

- Singapore's economy continues to recover from the lows of 2020 (with 4% - 6% growth forecast for 2021), powered by the trade-driven manufacturing sector and by financial services.
- For New Zealand companies, Singapore (as a market in itself and as a gateway to South East Asia) is a good option for export diversification.
- Within Singapore, there is a growing market for premium food and beverage products that are sustainably produced.
- There is also a strong focus in the public and private sector on digitalisation – creating opportunities for New Zealand companies in a range of areas including agri-tech, fin-tech, health-tech and med-tech. See the attached Singapore Government Emerging Stronger Taskforce report for further background.
- Singaporean private equity firms also remain interested in partnering with and/or providing capital to New Zealand companies that are developing disruptive technology.

Report

We provide an update on Singapore's economy.

<u>Economy Overview: A Return to Growth</u>

Singapore has seen an uneven and gradual economic recovery in 2021 led by the trade-driven manufacturing sector, but with financial services also a comparatively bright spot:

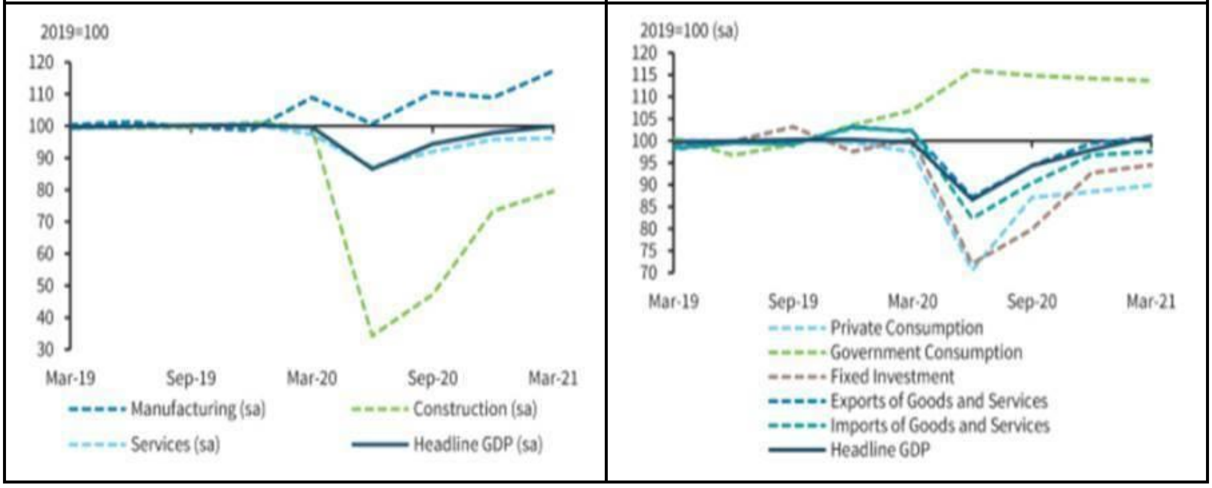
- Singapore's Q1-2021 GDP growth was 1.3% up on the same quarter in 2020 (y/y), the first time in positive territory since the start of the pandemic, and the first country in ASEAN to do so.
- The return to positive annual growth is partly due to a low base, with China and the tourism sector already affected by COVID-19 in Q1-2020, and also current strong external demand for electronics. Highlighting the unique role of the latter (something shared by some other Asian economies), Standard Chartered Bank estimated that Q1-2021 GDP growth may have contracted by 1.3% y/y excluding electronics and precision engineering manufacturing growth.
- Net exports added 5ppt to GDP growth in y/y growth in Q1-2021, on the back of robust external demand (especially for semiconductors) and global economic reopening.

Construction and transportation are still stuck in the doldrums and face a hard road ahead. These sectors, along with food and beverage services, real estate and professional services, are among those that recorded negative growth in the first quarter of this year. Indeed, the regional resurgence of COVID-19 infections will continue to weigh down growth prospects in these sectors.

The government kept its 2021 GDP growth forecast at 4 - 6% (following a decline of 5.4% in 2020), after noting that growth may exceed the official forecast in the monetary policy statement released on 14 April. This may be due to growth uncertainty caused by the pandemic situation, given the latest resurgence in infections and slow vaccination pace around the region (even though Singapore itself remains an outlier on both counts). By way of comparison, the Monetary Authority of Singapore's (MAS) view in April was "Singapore’s GDP growth this year is likely to exceed the upper end of the official 4–6% forecast range, barring a setback to the global economy." The Consensus forecast was recently revised up to 6.9%.

Figure 1 – Where growth is coming from

Seasonally adjusted GDP levels by industry	Seasonally adjusted GDP levels by expenditure



Labour Market

The labour market recovery is relatively nascent. Unemployment has been declining gradually, with the latest resident unemployment rate at 4.0% as of March from a peak of 4.8% as of September 2020. 6,700 jobs were added in Q1 after four consecutive quarters of job losses. However, quality of employment may be a concern, with some in the labour market on contracts or traineeships, for example, and a growth in the gig economy. The ratio of job vacancies to unemployed persons also remained below 1 as of Q4. Employment expectations do suggest some optimism however, with a net 9% and 6% of employers in the manufacturing and services sectors looking to increase hiring in Q2 versus Q1, although the tightening in restrictions may forestall some of this.

The headline labour market picture is being partially distorted by tightened border measures which has seen a significant net loss of migrant workers (and ex-pats). In some sectors such as construction this is impacting capacity and supply (e.g. with a forecast shortfall of 50,000 migrant workers affecting larger-scale construction projects), in others it is more a consequence of lack of demand.

Aviation Sector

The aviation sector remains badly affected by the COVID-19 pandemic, with the current upswing in cases in the region likely to delay significant progress towards recovery. Singapore Airlines posted an S$4.27 billion loss for the 12 months to 31 March. The only bright spot in the significant decline in passenger volumes was a S$758 million (or 38.8%) year-on-year freight revenue increase to S$2.71 billion. In response to the loss, SIA will issue S$6.2 billion of convertible bonds.

Budget 2021

Then Finance Minister Heng Swee Keat announced a smaller-than-expected fiscal deficit at 2.2% of GDP for the 2020/21 fiscal year (FY2021) when he presented the budget in February, narrowing from 13.9% of GDP in FY2020. However, the underlying numbers (the so-called basic balance) implies a much less contractionary fiscal stance than the overall deficit suggests.

The budget continues to provide targeted support measures for vulnerable sectors, with an S$11bn (2.2% of GDP) Covid-19 Resilience Package. However, the budget also focused on measures to adapt to changes brought about by the pandemic, with allocations totalling S$24bn (4.8% of GDP) over the next three years to support long-term economic restructuring.

For the second year in a row, the deficit will be funded by a drawdown of past reserves, bringing the total drawdowns to S$53.7bn in both FY2020 and FY2021. Mr. Heng hinted that the previously signalled GST rate hike could happen "sooner rather than later" and the government has agreed to the proposal of issuing bonds (SINGA bonds) but only to finance major long-term infrastructure projects with a limit of S$90bn.

Ongoing Pandemic Support

The government allocated S$75.2bn of direct fiscal support for pandemic measures in FY2020. Of this year's S$11bn package, S$4.8bn will be used for public health and safe reopening measures, such as vaccination and contact tracing. S$700mn will be used for wage subsidies (versus over S$25bn last year) in sectors that continue to be hard hit, such as aviation and tourism. Another S$870mn will be used for targeted support for the aviation sector.

On 29 May, new Finance Minister Wong announced a S$800 million support package that included wage subsidies for businesses and workers impacted by the phase 2 restrictions (in the range of 30 – 50 % salary support depending on the degree of impact faced by the business). Wong stressed that this package will not draw on reserves, with a message that Singapore will now have to look other ways to meet COVID-induced costs to the economy wherever possible (including by making use of the "SINGA" infrastructure loan scheme announced in this year's Budget).

Emerging Economically Stronger

In Singapore's view, the global economy is undergoing a profound transition, which the COVID-19 pandemic is accelerating. To help ensure Singapore's economy is able to evolve effectively in relation to these trends, Government established the Emerging Stronger Taskforce (EST) in May 2020. The EST was tasked to:

1. Identify systemic shifts arising from COVID-19;
2. Assess the impact of these shifts on the Singapore economy, and how these translate into challenges and opportunities; and
3. Provide recommendations to the Future Economic Council (which is chaired by Deputy Prime Minister Heng and includes members from businesses, trade association and chambers) on how Singapore should refresh, reimagine, or reset its economic strategies, to stay economically resilient and build new sources of dynamism in the post-COVID-19 world.

On 17 May 2021, the EST released its final report. At the press conference for the release, Minister for National Development Desmond Lee stressed that battling uncertainties arising from the pandemic could shorten one's field of vision but this presents risks, especially for small countries like Singapore. Lee went on to say that "we don't want to look up when the crisis begins to abate … and realise that the world has changed around us and we had this very short-term view…so this guided the work of the (task force) and our central question was what must we do to ensure that Singapore emerges from this crisis stronger."

The report identifies six key shifts, brought about or accelerated by the pandemic, which Singapore needs to prepare for:

1. A more fragmented global order, with growing tensions among the major powers in areas such as technology, finance, and trade.
2. The consolidation of industries in response to the economic and financial implications of COVID-19, creating winners and losers amongst countries, companies, and individuals.
3. The reconfiguration of global supply chains and production, as countries and companies re-evaluate their resilience and diversify operations.
4. The acceleration of digital transformation and innovation, with the gains likely to persist well beyond COVID-19.
5. Changing consumer preferences, with new demand for hygiene and health, virtual and contactless services,

and alternatives to physical travel.

6. An increased focus on sustainability, due to growing climate ambitions globally and the need for sustainable development.

Many of these shifts had been identified previously and have been increasingly motivating economic and budget policy decision-making for a number of years. In responding to these shifts, the report outlines a vision of a “virtually” unlimited Singapore that creates new virtual frontiers, seizes growth opportunities from sustainability, enables global champions and grows an agile and strong domestic core, institutionalises the Alliances for Action model (a model of private – public partnership), and strengthens international connections (with a focus on South East Asia). With a focus on action given COVID-19 ‘has created a burning platform for economic change’, the report also outlines a number of recommendations that are or will be implemented immediately:

1. Secure our Economic Future through **Supply Chain Digitalisation**.
2. Build Singapore as a “Bright Green Spark” through **Sustainability**.
3. **Digitalise Built Environment** to Build Tomorrow’s Cities.
4. Bring Singapore to the World through **Smart Commerce**.
5. Break the Productivity Frontier through **Robotics** Solutions.
6. Reconnect with the World through **Safe and Innovative Visitor Experiences**.
7. Reach the World’s Learners through **EduTech**.
8. Strengthen Singapore’s Position as an End-to-End Hub for **MedTech** Product Development.
9. Build a World-Class **AgriTech** Ecosystem while Supporting Singapore’s Food Resilience Goals.

An innovative feature of the EST work was to set up Alliances for Action (AfAs) in key areas. These were used on a “sprint” basis to develop and test out ground-breaking initiatives to solve problems or fill gaps, consistent with the six shifts the Taskforce had identified. The ideas were allowed to fail, if deemed unviable after around 6 months, but those with legs have been taken forward through the PPP model. In the area of sustainability, Singapore has already actioned one report recommendation: the establishment of Climate Impact X (CIX) – a Singapore-based global carbon exchange and marketplace that aims to scale and bring integrity to the voluntary carbon market. CIX, which is backed by the Singapore Stock Exchange, DBS bank, Temasek, and Standard Chartered, will focus on nature-based solutions (commonly used as carbon off-sets in the commercial sector, and where there is an abundance of opportunity in the SEA region). The exchange recognises the voluntary carbon market suffers from perceptions of greenwashing and lack of ability to properly monitor projects/outcomes. It therefore aims to create an ecosystem of partners, leveraging satellite monitoring, machine learning and blockchain to enhance transparency, integrity and quality of carbon credits. This will, according to the backers, empower corporations to take effective action and complement carbon reduction efforts as part of a holistic climate mitigation strategy. New Zealand’s long-standing experience with monitoring and measurement of land-use and forestry (and existence of innovative start-ups like Carbon Crop) should place it in pole position to explore potential partnerships with CIX.

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