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SINGAPORE'S ECONOMY IN 2021 – RAISING FROM THE ASHES?

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Abstract

Several peculiarities of the Singaporean economy stand out clearly: the size of the economy, the focus on business services and technological development, and the unique exchange rate system, etc. For this reason, it is worth taking a look at how the Singapore economy responded to the economic crisis triggered by the COVID-19 pandemic and how the economy recovered in 2021. This brief analysis looks at the country's key economic indicators – GDP, inflation, the general budget and trade. Before that, however, we briefly examine the situation of the pandemic, which has a direct impact on the economy.

Keywords: Singapore, Covid-19 pandemic, macroeconomy analysis

Pandemic situation

Unlike many other countries, Singapore has coped well with the first and second waves of coronavirus. It implemented strict China-like rules against the pandemic until its vaccination rate became one of the best in the world. As of January 23, 2021, Singapore was ranked seventh in the world in terms of vaccine doses administered per 100 people. While 52% of the world's population was fully vaccinated against COVID-19 (as of January 23, 2021), this rate was 87% in Singapore. The high vaccination rate provides a buffer for new waves of the virus and gives more room to fight the pandemic and avoid full lockdowns in the future. Therefore, we can say that the successful vaccination program will allow the city to grow faster in 2022 and in the years to come.

Economic growth

Since then, economic performance has improved, a process that has been faster in some sectors and slower in others. In the second quarter of 2021, output reached pre-crisis levels. (More detail will follow later.) The global pandemic has hit Singapore's economy harder than the Asian average and the average of advanced Asian countries. None of the advanced Asian economies – Japan, South Korea, the Chinese province of Taiwan and Australia – suffered GDP losses as severe as Singapore. Being one of the most open economies in the world, it is also more vulnerable to global economic shocks. This is due to the size of the economy and the free trade policies pursued by the country. According to the World Openness Index – compiled by the Institute of World Economics and Politics of the Chinese Academy of Social Sciences and the Research Center for Hongqiao International Economic Forum – Singapore became the world's most open economy in 2021, while Germany was the second and Hong Kong the third. This characteristic of the Singaporean economy is not new, but its vulnerability to the slump in global demand makes itself felt every time, when

global economic trends deteriorate. This was the case during the Asian crisis and also after the collapse of Lehman Brothers in 2008. In addition, bottlenecks in global supply chains were also characteristic elements of the crisis this time. Small economies like Singapore suffered particularly from the problems in global supply chains.

	2020	2021	2022
World	-4.3	4.8	3.8
Asia	-1.3	6.5	5.7
Advanced Asia	-2.9	3.8	3.5
Singapore	*-5.6*	*6.0*	*3.2*

Table 1. GDP growth rates in Asia (%)

The International Monetary Fund (IMF) was very pessimistic about Singapore's GDP in its October 2021 Outlook. Its forecast of 6% –see Table 1 – was exceeded by real data. According to Singapore's Ministry of Trade and Industry, the economy grew by a staggering 7.2% in 2021. The government's forecast earlier this year was between 3 and 5%. Similar robust growth was last seen in 2010, when GDP grew 14% after the global financial crisis (2008-2009). Open economies react more quickly to economic shocks, and on the other hand they also recover more quickly when other domestic factors are appropriate.

	2020Q4	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021
Overall GDP	*-2.4*	*-5.4*	*1.6*	*15.3*	*7.1*	*5.9*	*7.2*
Goods producing industries	3.9	0.6	6.0	23.1	11.7	12.2	12.9
Manufacturing	10.3	7.3	11.5	18.2	7.9	14.0	12.9
Construction	-27.4	-35.9	-23.2	117.5	66.3	2.0	8.7
Services producing industries	-4.7	-6.9	-0.4	10.9	6.2	4.6	5.2

Table 2. GDP (percentage change over corresponding period of previous year)

Source: Ministry of Trade and Industry, Singapore

The channels of the crisis

Singapore's economy contracted by 5.4% in 2020 and 2021. These years stand for the worst recession since the city's independence. The crisis reached Singapore through the following channels:

- Decline in domestic consumption;
- Decline in foreign demand for city-produced goods and services;
- Supply chain disruptions;
- Labor supply disruptions;

- Global travel restrictions;
- Deterioration in business climate.

The decline in domestic consumption mainly affected the retail trade, food and beverage, and land transport sectors, as these sectors are close to consumers and their production is mainly driven by domestic demand.

The decline in foreign demand and the disruption of the supply chain affected manufacturing, wholesale trade, shipping, information and communications, finance and insurance, and professional services, as these are outward-oriented sectors whose production is mainly driven by foreign demand.

Global travel restrictions had a huge impact on the accommodation, air transport, and aerospace sectors, while labor supply disruptions negatively affected construction and marine and offshore engineering, as these sectors rely heavily on foreign labor. *Deterioration of the business climate* was due to the global pandemic in the real estate, rental, and leasing sectors.

The unemployment rate skyrocketed from 2.3% in 2019 to 3.5% in September 2020. Since then, unemployment has slowly improved. According to data from the Ministry of Manpower, the resident unemployment fell to 3.2% in November 2021, down from 3.4% the month before. In short, the Singaporean labor market is very close to full recovery. It should be noted that unemployment rates for residents are recorded separately from those for nationals. The latter tend to be somewhat higher than the resident unemployment rates also including migrant workers who come to work in the city. In the event of unemployment, they tend to leave Singapore.

	2019 Dec.	2020 March	2020 June	2020 Sep.	2020 Dec.	2021 March	2021 June	2021 Sep.
Overall unemployment rate	2.3	2.5	2.8	3.5	3.3	2.9	2.7	2.6
Resident unemployment rate	3.2	3.5	3.9	4.8	4.4	4.0	4.0	4.5
Citizen unemployment rate	3.3	3.6	4.0	4.9	4.5	4.2	3.7	3.7

Table 3. Unemployment rates in Singapore (%)

Despite the economic recovery, now the labor market faces four big challenges:

Rising skill mismatches in the labor market. As the structure of the economy changes due to increasing digitalization and changing global trade and investment patterns, workers without adequate skills may find it difficult to find a job, as evidenced by the rise in the long-term unemployment rate and the number of job vacancies. The job vacancy to unemployed person ratio went up during this year, the ratio was 0.96 and in the third quarter it was 2.09, reflecting the growing importance of this issue.

Foreign labor shortages. Companies in Singapore are unable to hire as many foreign workers as they need. This problem is particularly prevalent in the construction sector.

Digitalization has accelerated the pace of outsourcing. Due to the growing popularity of home offices and new technology solutions, a growing number of companies are accelerating the outsourcing of certain work tasks overseas. The sectors affected by this trend are advertising and market research, architecture, business administration, engineering and law.

Digitization is leading to growing inequality. As skilled workers are more likely to be able to upgrade their skills as a result of digitization, those who are able to keep their jobs will see significant increases in income.

Prices, inflation, and monetary policy

In addition to exports, the domestic driver of the economy appears to be the real estate sector, where prices rebounded rapidly in 2021. According to the latest report, private home prices rose 5% in the fourth quarter. To avoid an overheated property market, the Singapore government has put together a package for the sector, including an increase in stamp duties and a tightening of loan limits. In a similar sign of overheating, the government plans to raise taxes on goods and services from 7% to 9% between 2022 and 2025.

At the same time, planned tax increases and global inflationary pressures make central bank tightening measures in 2022 very likely. We should add that the central bank of Singapore – Monetary Authority of Singapore (MAS) – does not focus on monetary interest rates, but on the exchange rate. The reason for this approach is that interest rate policy is less effective in an economy where the volume of trade is around 300% of GDP. In this case, controlling the exchange rate is more effective. Therefore, the monetary policy framework is based on controlling the Singapore dollar against a trade-weighted basket of currencies. The composition of the basket is revised periodically, usually every six months, to reflect changes in the trade pattern. The exchange rate can fluctuate within a policy band. In this system, MAS appreciates the Singapore dollar when it wants to curb inflation and depreciates the local currency when it wants to stimulate the economy. Based on December 2021 data, inflation is expected to average 3.2%in 2021. However, the aforementioned tax hike will increase inflation by 1.2 percentage points to the 3.2% level. For this reason, several analysts forecast a price-wage cycle this year.

In fiscal year 2021-2022, the Singapore government has allocated nearly USD 100 billion in five budgets, in addition to its usual spending, to boost the economy. According to the Ministry of Finance:

- Singapore's GDP would have shrunk by at least 12.4%, more than double Singapore's 5.4%, in the absence of policies and financial support for businesses.
- In 2020 and 2021, the government's measures created about 150 thousand jobs, which the ministry estimates reduced the unemployment rate by 2 percentage points.
- People with low incomes received more support through the Workfare Special Payment and Grocery Vouchers.

- Monetary and fiscal policies were coordinated to alleviate economic distress in the economy.
- As a temporary measure, some groups of individuals and businesses were exempted from rents and obligations under contracts.
- Financial assistance continues to be provided in sectors (aviation and the tourism industry) where recovery is slower than in other sectors.

Singapore is the second country in terms of fiscal response to the pandemic. Table 4 shows the regional competitors of the city. With the exception of Japan, cities – Macau, Hong Kong and Singapore – responded more determined to the crisis, but we have to understand also that these economies heavily depend on either trade and tourism or both sectors, and these were severely impacted by the crisis, moreover, none of them can rely on strong and broad domestic demand.

	Additional fiscal measures	Liquidity measures	Total
Japan	15.9	28.3	44.2
Macau	27.4	0.0	27.4
Singapore	16.0	4.7	20.7
Hong Kong	15.9	3.1	19.0
South Korea	4.5	10.2	14.7
Thailand	8.2	4.2	12.4
India	3.3	5.1	8.4
Malaysia	4.5	3.5	8.0
China	4.8	1.3	6.1
Indonesia	4.5	0.9	5.4
Philippines	2.7	0.9	3.6

Table 4. Fiscal response to the crisis (%, in terms of GDP)

Apart from the crisis measures, the most important step taken by the government is the increase in the goods and services tax (GST). The tax will be raised from 7 to 9%. Among OECD countries, Singapore has the second-lowest GST. (The lowest rate is 5% in Canada. The increase will put Singapore third in this ranking, as Switzerland's VAT is 7.7%). The Prime Minister argued for the increase as follows: "Without the GST rate increase, we will not be able to meet our rising recurrent needs, in particular healthcare spending, ... Increasing GST by two percentage points will provide us with revenue of almost 0.7% of GDP per year."

The gap between revenues and health care costs is growing. Between 2009 and 2019, Singapore's health care costs increased by 162.6%, while average tax revenues changed by only 49.3%. And if you look at the types of taxes, the difference is smallest for GST (27.7%), while income tax revenues have increased 76.6% between 2009 and 2019. This is basically the main argument why the GT should be raised and not the personal income tax rates. We can also add that the personal tax is progressive,

which means that those at the top have a high tax burden. The top 10 taxpayers pay 80% of the income tax, while the remaining 90% of taxpayers raise only 20%.

Looking at the distribution of the GST, the situation is completely different. The top 20% of the wealthiest Singaporeans, foreigners, tourists, etc., pay over 60% of the total GST. The remaining 80% pay only 40%. In short, there is still the possibility of taxing the rich because the ratios are different. For personal income, raising it further at the top would certainly cause capital to leave the country.

Manufacturing and services

Services account for nearly 70% of Singapore's value added, while manufacturing contributes 21% of total value added. The services sector grew by 1.9% year-on-year in November 2021. Business expectations in the services sector improved in 2021. 25% of firms were optimistic in November 2021 when asked about their business expectations for the next six months, while 9% were pessimistic. (69% of businesses believe business conditions will remain the same between November 2021 and March 2021. The weighted net balance was +19%, a significant improvement from October 2020, when the balance was -5%.

	2020Q4	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021
Goods producing industries	3.9	0.6	6.0	23.1	11.7	12.2	12.9
Manufacturing	10.3	7.3	11.5	18.2	7.9	14.0	12.9
Construction	-27.4	-35.9	-23.2	117.5	66.3	2.0	8.7

Table 5. GDP in manufacturing (percentage change over corresponding period of previous year)

Looking at the performance of the manufacturing sector, we find that it was far less affected by the pandemic than the services sector. The most affected sector was accommodation and food services, where output fell by 12.8% in 2020. At the same time, construction was the hardest-hit sector with a 35.9% decline in 2020.

While output was still declining in 2021Q1, construction rebounded at 117.5% in 2021Q2, and the annual average in this sector showed a massive 8.7% year-on-year growth.

	2020Q4	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021
Services producing industries	*-4.7*	*-6.9*	*-0.4*	*10.9*	*6.2*	*4.6*	*5.2*
Wholesale & Retail Trade and Transportation & Storage	-6.4	-9.5	-1.6	8.8	6.1	4.3	4.3
Information & Communications, Finance & Insurance and Professional Services	1.4	0.9	3.3	10.1	8.0	6.0	6.8
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	-9.9	-12.8	-3.6	14.5	3.8	3.1	4.0

Table 6. GDP in the service sector (percentage change over corresponding period of previous year)

Trade

Singapore, one of the major centers for semiconductor manufacturers, had a good year in 2021 in trade. Between September 2020 and September 2021, Singapore's exports increased by 22.2%, while imports increased by 21.8%. Non-oil exports increased by 18.4% in December compared to the same month in 2020, while shipments to China rose with 36.6% in the same month. Growth rates for total exports and China were slightly lower in December than in November, reflecting a cooler business climate across Asia.

As Singapore's economy is highly dependent on Chinese demand, the zero Covid-policy leading to closures in Shanghai, Dalian, Tianjin and Shenzhen could severely impact Singapore's trade prospects this year. Looking at the big picture, we can see that China is the city's largest trading partner. A look at Table 6 shows that China is also a very important export market for Singapore (the mainland and Hong Kong account for almost one-third of Singapore's exports).

The pandemic left its mark on the data, as both export and import volumes contracted in 2020, while the city was able to maintain its trade surplus. While goods trade was USD 1.022 billion in 2019, it dropped to USD 961 billion the next year when the pandemic hit the global economy.

	Merchandize trade (billion USD, 2021)	Export shares (%, 2019)
Mainland China	164.3	15.20
Malaysia	128.7	9.37
United States	105.7	8.24
European Union	102.0	9.36
Taiwan Province	99.9	3.33
Hong Kong	85.1	13.00
Indonesia	59.1	6.59
Korea	56.2	2.73
Japan	53.9	3.59
Thailand	34.1	3.00

Table 7. Trade partners in 2021 (billion USD)

Summary

Singapore was hit harder by the pandemic in 2020, at the same time recovering faster than the world average or the average of advanced Asian countries. As this year is not free from tensions in the global economy and politics, global GDP forecasts have been lowered recently, and due to Singapore's vulnerability to economic shocks, its GDP is expected to be below the world average and the average of advanced Asian countries.

We have seen that Singapore's economy has been extremely affected by the global trade crisis, and the city's exports and trade are mainly with China. Against the backdrop of growing tensions in the South China Sea between the United States and China, any conflict will most likely hit the country hard. We can add that the Regional Comprehensive Economic Partnership (RCEP) came into effect on January 1, 2022, and we cannot yet see the impact of the trade agreement, but the trade pact increases China's influence in Singapore.

Another factor that makes the near future uncertain is the global rise in inflation. It is extremely difficult to shield Singapore's economy from the negative effects because it is small and has basically no natural resources. The increase in goods and services tax heralds a new phase in Singapore's economic development, in which low tax rates will be unsustainable.