Singapore

Growth decelerated in 2018 on softening demand, both external and internal. Further moderation is expected in 2019 and 2020 as slowdowns in major trade partners and lingering trade tensions tamp down expansion in export-oriented industries and erode business sentiment. Inflation will pick up slightly but remain tame, and the current account surplus will edge higher on rising net service receipts. The introduction of a carbon tax demands policies to keep affected companies competitive.

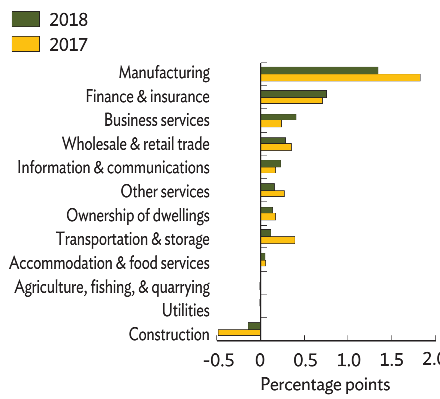
Economic performance

Growth moderated from 3.9% in 2017 to 3.2% in 2018 as expansion in manufacturing and services slowed and domestic demand weakened. Services remained the main driver of economic activity, contributing 2.1 percentage points to growth. Growth in manufacturing slowed from 10.4% in 2017 to 7.2% as demand for electronics softened but still contributed 1.3 points to growth. Construction contracted by 3.4%, shaving 0.1 points from growth, owing to weakness in public construction (Figure 3.29.1).

Consumption contributed 1.2 percentage points to growth, less than in 2017, as private expenditure growth slowed in line with spending on transportation, and public expenditure also rose modestly in line with spending on social services. Investment shaved 0.4 points from growth on faltering public and private construction and investment in transport equipment. Exports of goods and services grew by 5.2% in real terms, driven largely by higher shipments of machinery and transport equipment. Meanwhile, imports of goods and services rose by only 4.5%, leaving net exports to add 2.6 percentage points to GDP growth (Figure 3.29.2).

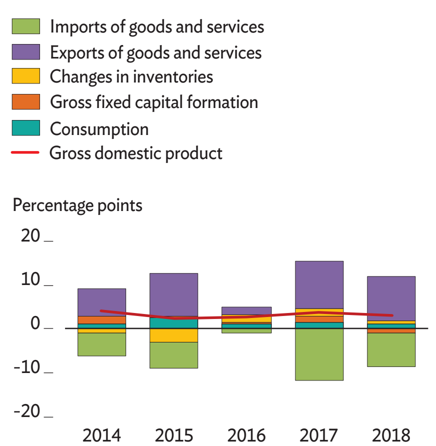
Consumer price inflation eased to 0.4% in 2018 with a decline in accommodation costs as rebates to households rose, bus and train transport costs dropped, and car prices moderated. However, core inflation, which excludes accommodation and private transportation on land, rose by 1.7% on steady price increases for food and for education and health care services (Figure 3.29.3).

3.29.1 Supply-side contributions to growth, by industry



Source: Ministry of Trade and Industry. Economic Survey Singapore 2018 (accessed 18 February 2019).

3.29.2 Demand-side contributions to growth



Source: Ministry of Trade and Industry. Economic Survey Singapore 2018 (accessed 18 February 2019).

This chapter was written by Shu Tian and Mai Lin Villaruel of the Economic Research and Regional Cooperation Department, ADB, Manila.

In April 2018, the Monetary Authority of Singapore tightened monetary policy, allowing the Singapore dollar to appreciate by 0.8% in nominal effective terms and by 2.3% against the US dollar in nominal terms (Figure 3.29.4). The interbank overnight rate increased by 0.4 basis points following movement in the US federal funds rate. Loans and advances rose by 3.0%, less than in 2017, and money supply grew by 3.9% (Figure 3.29.5).

Merchandise exports increased by 12.7% in 2018 as prices for petroleum product exports increased, though export volume fell. Merchandise imports rose by 14.3%, but the trade surplus still widened. As the deficit in services also narrowed on higher net receipts from financial services, the current account surplus rose to equal 17.7% of GDP. Nevertheless, the overall balance of payments surplus narrowed from the equivalent of 8.1% of GDP in 2017 to 3.5% as net capital outflows widened to $50.3 billion, equal to 13.9% of GDP (Figure 3.29.6).

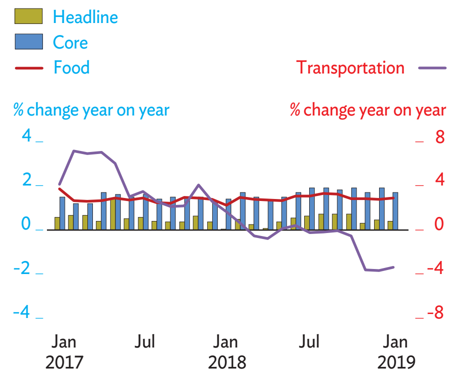
The budget for fiscal year 2018 (FY2018, ended 31 March 2019) recorded a surplus equal to 0.4% of GDP, though a small deficit had been planned. Revenue declined by 0.5%, less than originally budgeted, with lower receipts from vehicle quota premiums and stamp duties and reduced contributions from statutory boards. Expenditure including special transfers grew by 10.4%, also less than originally planned, on higher transport, security, and defense outlays (Figure 3.29.7).

Economic prospects

GDP growth is expected to moderate further to 2.6% in 2019 and 2020. Manufacturing and export-oriented services will grow at a slower pace than last year, tamped down by a global growth slowdown and lingering trade tensions. According to a business expectation survey in the first quarter of 2019, business conditions are expected to be less favorable in the first half of 2019. The purchasing managers' index for manufacturing edged down in February 2019, and that for electronics dipped into contraction territory (Figure 3.29.8). Nevertheless, modern services—which include business services, finance, and information and communication technology—will continue to drive growth this year and next, buttressed by government support for digitalization. Construction looks likely to recover in 2019, as public sector contracts rose substantially in late 2018.

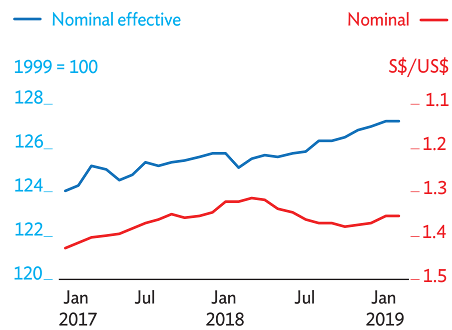
Investment growth will accelerate in 2019 on recovery in construction and plans by the Economic Development Board of Singapore to attract more than S$10 billion in fixed asset investment. Low unemployment and tightening supply of foreign workers will push up real wages and encourage household spending, while government consumption will

3.29.3 Monthly inflation



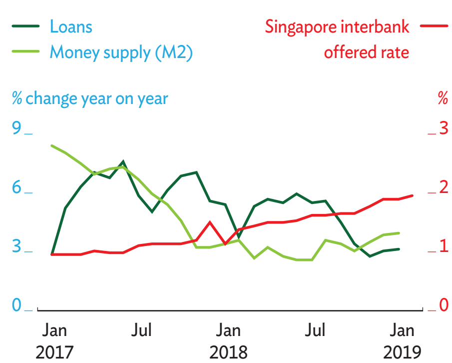
Source: CEIC Data Company (accessed 5 March 2019).

3.29.4 Exchange rates



Source: CEIC Data Company (accessed 5 March 2019).

3.29.5 Financial indicators



Source: CEIC Data Company (accessed 8 March 2019).

rise with more spending on social services and security. January 2019 data show exports of both oil and other products, notably machinery and transport equipment, declining in real terms, though lower exports were cushioned by increased re-exports. Imports too are expected to grow at a slower pace in 2019, generating a modest rise in net exports.

A budget deficit equal to 0.7% of GDP is planned for FY2019. If implemented as planned, expenditure will increase by 1.6% on spending in social services, and revenue will grow by 1.7% on higher receipts from fees and charges.

Inflation is projected to edge up to 0.7% in 2019 and 0.9% in 2020. In January 2019, headline inflation eased to 0.4% year on year and core inflation to 1.7% year on year. However, inflationary pressure will intensify this year and the next. A higher private residential property price index in the fourth quarter of 2018 indicated rising accommodation costs. A carbon tax will come into effect, wages could rise as reliance on foreign workers becomes more restricted, and education and health care costs and license fees on car ownership are set to increase. However, with core inflation still within the forecast range of the Monetary Authority of Singapore, monetary policy will likely be unchanged at least for the remainder of 2019.

The trade account is forecast in surplus in both 2019 and 2020, though imports are expected to grow faster than exports. In January 2019, export growth softened to 1.0% year on year, while imports grew by 8.0%, but the trade balance remained in surplus. The deficit in services is expected to narrow as net payments for imports of business and transport services fall, and as net receipts from the use of intellectual property and financial services increase. On balance, the current account surplus is projected to remain stable at the equivalent of 17.8% of GDP in 2019 and 2020.

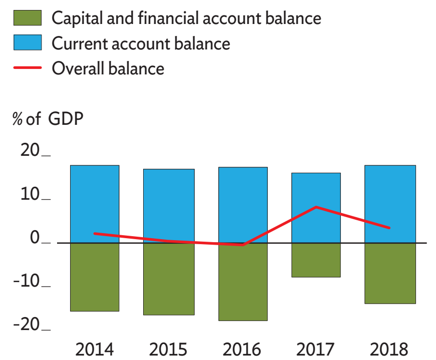
An external risk to the outlook is global growth slowing more than expected. Singapore's highly open economy is vulnerable to protectionist policies elsewhere, and the trade conflict between the People's Republic of China and the US could further erode business confidence. Separately, increases in US interest rates that are higher or more abrupt than expected could reduce capital flows and raise local interest rates. The main domestic downside risks arise from tightening in the labor market and slower productivity growth than experienced in recent years. Singapore enjoys substantial financial buffers to mitigate the impact of these risks, however, if they materialize.

3.29.1 Selected economic indicators (%)

	2019	2020
GDP growth	2.6	2.6
Inflation	0.7	0.9
Current account balance (share of GDP)	17.8	17.8

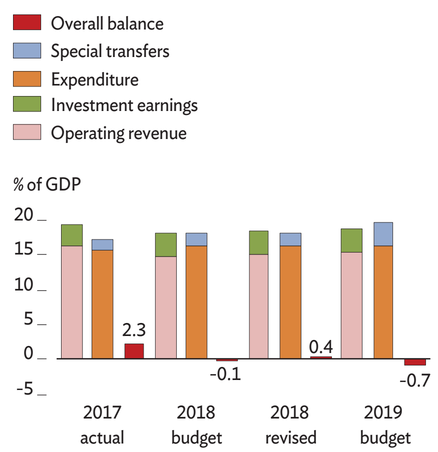
Source: ADB estimates.

3.29.6 Balance of payments



Source: Ministry of Trade and Industry. Economic Survey Singapore 2018 (accessed 18 February 2019).

3.29.7 Fiscal indicators



Note: Years are fiscal years ending on 31 March of the next year.

Source: Ministry of Finance (accessed 22 February 2019).

Policy challenge—balancing competitiveness and low-carbon development

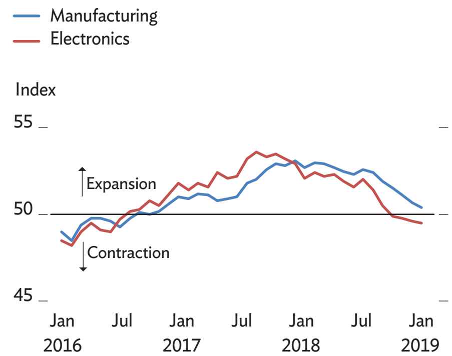
Singapore's carbon emissions relative to GDP rank low in the world, but its emissions per capita ranked 24 out of 204 in 2014. Under the 2015 Paris Agreement, Singapore pledged to reduce by 2030 its carbon emission intensity by 36% from its 2005 level. To this end, Singapore introduced a carbon tax on carbon dioxide emissions, effective from 2019, making it the first economy in the Association of Southeast Asian Nations to do so.

The carbon tax applies to large emitters and has directly affected the businesses, as many as 40 of them, that contribute more than 80% of emissions (Figure 3.29.9). The tax is expected to encourage the transition to energy-efficient operations, set the stage for future platforms for emissions trading, and generate revenues estimated at $1 billion in the first 5 years, which the government intends to use to help companies innovate and improve their energy efficiency. Meanwhile, though, there is a risk that the carbon tax could make affected businesses less competitive than peers that are not subject to the tax—a risk exacerbated by volatile oil prices. The authorities now face the challenge of balancing objectives for controlling emissions with those for sustaining competitiveness and economic growth.

Reflecting this concern, the carbon tax is scheduled to increase gradually, starting at S$5 per ton of carbon dioxide during the transition phase of 2019–2023, then rising to S$10–S$15 per ton following an assessment in 2023 of its impact. Gradual implementation and intense competition among energy supply companies should make it unlikely that the carbon tax will be passed on to consumers through higher electricity prices.

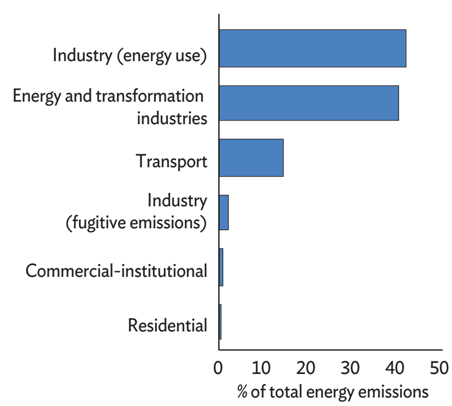
To ensure that the carbon tax is effective in the subsequent phase of implementation—when more information on energy emissions will be available and more companies will become subject to the tax—a carbon emissions trading system can be introduced. For this purpose, the government should set gradually stricter annual ceilings both for aggregate pollution from all industries and for company-specific emissions. Companies can then be allowed to trade their emissions. This will provide more flexibility to larger polluters, as they strive to bring down their emissions in an orderly fashion, while ensuring that the aggregate emission ceiling is not breached. During this phase, the carbon tax can be extended to the transportation industry, which the government forecasts will be second only to industry as a source of carbon pollution by 2020.

3.29.8 Purchasing managers' index



Source: CEIC Data Company (accessed 8 March 2019).

3.29.9 Emissions by sector, 2014



Source: National Environment Agency. 2018. Fourth National Communication and Third Biennial Update Report (accessed 1 March 2019).