SINGAPORE

GDP growth slowed in 2022 as expansion in all sectors moderated and contributions from net exports and investment fell sharply. Inflation accelerated as food and energy prices rose. Growth should moderate further this year on softer external demand but improve in 2024. Inflation will be on a downward trend to the forecast horizon, contained by the lagged effect of monetary tightening. A comprehensive fiscal policy package should be designed to support a planned move toward low carbon transition while safeguarding competitiveness.

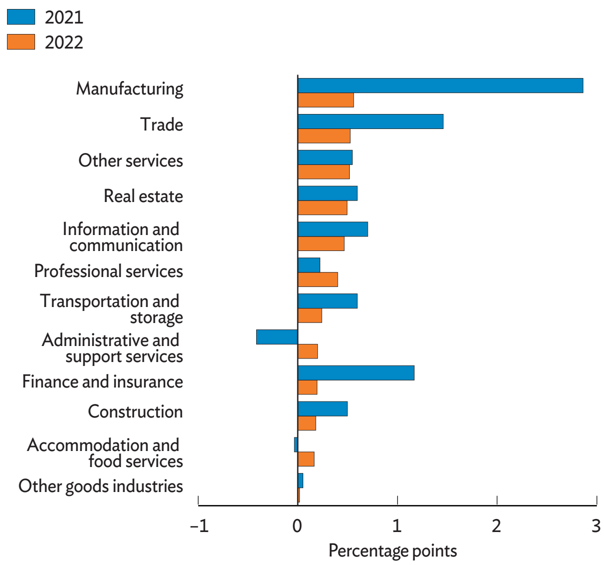
Economic Performance

Growth decelerated as external demand softened. GDP expansion moderated from 8.9% in 2021 to 3.6% in 2022. Growth was supported mostly by services but weighed down by weaker external demand and cyclical factors in manufacturing. Services grew by 4.8%, contributing 3.2 percentage points to growth and reflecting support from residents and tourists alike. Trade and finance slowed under sluggish external demand and weakened global financial conditions. Manufacturing growth decelerated, as the electronics segment weakened, to 2.5%, contributing 0.5 points to growth. Growth in construction decelerated to 6.7%, contributing only 0.2 points as both public and private construction declined (Figure 2.29.1).

Buoyed by private consumption, domestic demand grew by 5.2% in 2022 and contributed 3.5 percentage points to GDP growth. Supported by higher wages and higher cash assistance to cope with price increases, private consumption expanded by 9.7%, adding 3.2 percentage points to growth. By contrast, government consumption expenditure contracted, subtracting 0.3 points. Investment grew by only 0.6%, contributing 0.2 points as public construction contracted with lower investment in machinery and equipment. Meanwhile, exports of goods and services contracted in real terms by 1.3%, while imports of goods and services fell by 1.9%, such that positive change in net exports contributed 0.5 points to growth (Figure 2.29.2).

Figure 2.29.1 Supply-Side Contributions to Growth

Weak manufacturing and external demand weighed on growth in 2022.



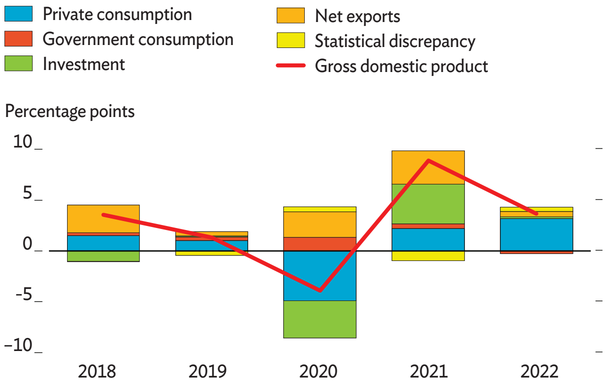
Source: Ministry of Trade and Industry. Economic Survey Singapore 2022.

Inflation rose on higher energy and food prices from 2.3% in 2021 to 6.1% in 2022. Prices for all components of the consumer price index increased except for communication, as prices for telecommunication equipment declined. The top three contributors accounted for 63% of the index: transportation contributing 2.8 points as car and

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

Figure 2.29.2 Demand-Side Contributions to Growth

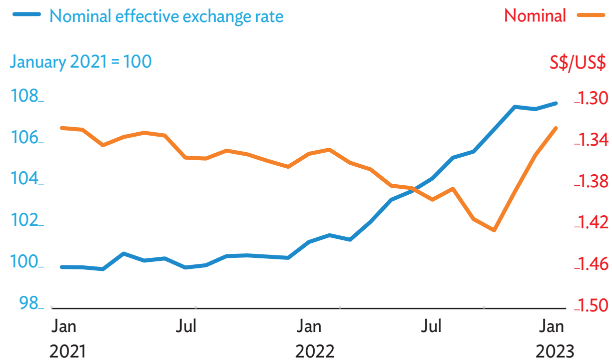
Economic reopening supported private consumption in 2022.



Source: Ministry of Trade and Industry. Economic Survey Singapore 2022.

Figure 2.29.4 Exchange Rates

With the US dollar strong, the Singapore dollar weakened against it until October.

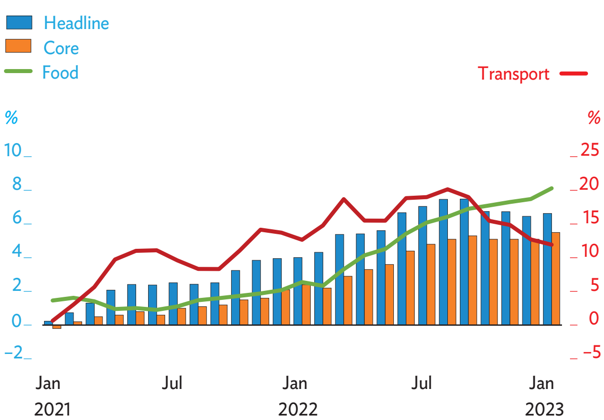


Source: CEIC Data Company.

gasoline prices rose, higher food prices contributing 1.1 points, and accommodation contributing 0.9 points because of higher rents. The central bank's core inflation index, which excludes private transportation and accommodation, rose from 0.9% in 2021 to 4.1% because of higher prices for food and services (Figure 2.29.3).

Figure 2.29.3 Inflation

Transportation and food prices drove headline inflation.



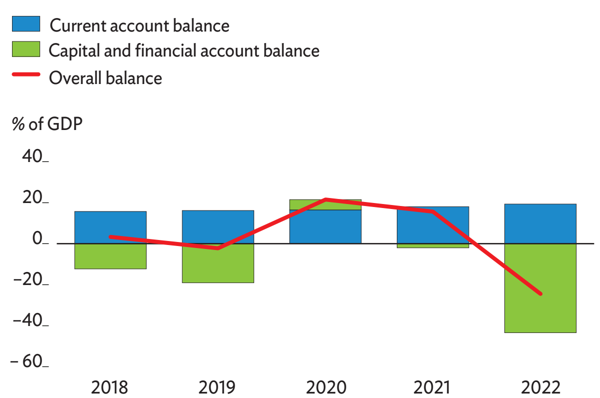
Source: CEIC Data Company.

The central bank tightened monetary policy to curb inflationary pressure. It raised the Singapore dollar nominal effective exchange rate policy band in January, April, July, and October of 2022. The local currency appreciated last year by 6.3% in nominal effective terms but depreciated by 0.1% against the US dollar (Figure 2.29.4).

The current account surplus expanded to equal 19.3% of GDP as the surplus in services widened. Driven by higher net receipts from transport and financial services, the service surplus rose from 5.6% of GDP in 2021 to 7.0% in 2022, outweighing a slight narrowing of the trade surplus from 29.7% of GDP in 2021 to 29.2%. This was largely driven by higher oil prices, which pushed up merchandise imports by 13.9% in US dollar terms, more than the 12.6% increase in exports. However, the balance of payments recorded an overall deficit equal to 24.5% of GDP as the capital and financial accounts registered net outflow of $202.6 billion, equal to 43.4% of GDP (Figure 2.29.5).

Figure 2.29.5 Balance of Payments

Large net capital outflow in 2022 pushed the balance of payments into deficit.



Source: CEIC Data Company.

Fiscal policy remained accommodative. The budget for fiscal year 2022 (FY2022, ended 31 March 2023) recorded a deficit equal to 0.7% of GDP, a reversal from a surplus of 0.2% in FY2021. Total revenue including the contribution of net investment returns narrowed from 18.1% of GDP in FY2021 to 17.4% with lower collection of corporate income taxes. Government expenditure including special transfers rose to 18.0% of GDP, a bit higher than originally planned, owing to higher spending on social services and economic development projects.

Economic Prospects

Growth will moderate to 2.0% in 2023, as manufacturing slows and external demand weakens, before improving to 3.0% in 2024. The main driver of growth will be services, especially travel-related ones as recovery in international air travel and inbound tourism is expected to accelerate following the reopening of the People's Republic of China's (PRC). However, sluggish external-oriented and finance sectors will still weigh on growth, given a slowdown in the global economy and tightening financial conditions. Manufacturing will remain weak in 2023. Business sentiment in manufacturing remains negative, as companies continue to face waning demand for manufactured goods as supply-chain challenges persist (Figure 2.29.6). Reflecting these sentiments, the purchasing managers' index contracted for 5 consecutive months to 49.8 in January 2023, then edged up to 50.0 in February. The electronics index fell to 49.3 in February following 7 months of contraction.

Waning external demand, tightening financial conditions, and higher taxes will moderate consumption, investment, and net exports. Consumer spending will be tempered somewhat by an increase in the goods and services tax (GST) and lower consumer confidence. Investment growth will be bolstered by a strong pipeline of government projects and private investment commitments that, at S$22.5 billion, will almost double those registered in 2021, though higher borrowing costs may dampen the effect on growth. Net exports of goods and services will contract because of the global economic slowdown, though a positive economic outlook in the PRC will ease the contraction modestly.

Table 2.30.1 Selected Economic Indicators, %

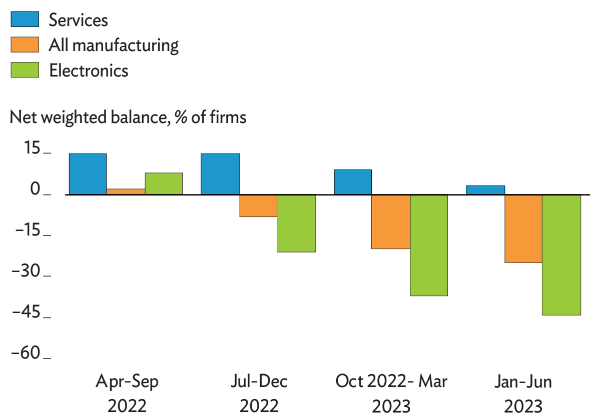
Growth will slow this year and reaccelerate next year, but inflation will be on a downward trend.

	2021	2022	2023	2024
GDP growth	8.9	3.6	2.0	3.0
Inflation	2.3	6.1	5.0	2.0

GDP = gross domestic product.
Sources: Ministry of Trade and Industry. Economic Survey Singapore 2022; Asian Development Bank estimates.

Figure 2.29.6 Business Sentiment

Business sentiment weakened in the first half of the year, especially in manufacturing.



Note: The net weighted balance is the difference between the weighted percentage of up responses and the weighted percentage of down responses.
Source: CEIC Data Company.

Inflation will moderate slightly in 2023 to 5.0% and ease further to 2.0% in 2024. While price increases have moderated, businesses still face higher costs for utilities and raw materials amid resilient demand, which will pass through to consumer prices in 2023. Singapore's imported inflation is expected to remain high in 2023, while domestic factors—such as the implementation of higher GST rates and wage increases in a tightened labor market, which rose by 4.3% in 2022—will play an increasingly important role in 2023 inflation. Inflation edged up from 6.5% year on year in December 2022 to 6.6% in January. However, price pressures are expected to moderate in the second half of 2023 thanks to lagged effects from monetary policy tightening, and ease further in 2024 as the impact of higher taxes wanes and the labor market stabilizes.

The ratio of the current account surplus to GDP will remain stable at 18.0% in 2023 and 2024. Merchandise exports contracted by 7.9% in January 2023 as electronics and other non-oil exports declined, while imports fell by 9.6% as non-oil imports contracted. Similar developments are expected for the rest of the year as muted domestic demand likely means more slowing for import growth than for exports. The trade balance is therefore expected to remain in surplus. Net service receipts will likely rise on higher demand for maintenance in transport services, particularly aviation, and for financial services. Capital outflow will be lower than last year as investment sentiment improves in line with a moderating pace of monetary tightening in advanced countries.

Fiscal policy will stay accommodative in FY2023. A budget deficit equal to 0.5% of GDP is planned for FY2023. Expenditure is expected to equal 17.6% of GDP as the government emphasizes economic resilience through support to local business and strengthened social safety nets. Revenue will be 17.1% of GDP because of increases in GST and receipts from fees and charges.

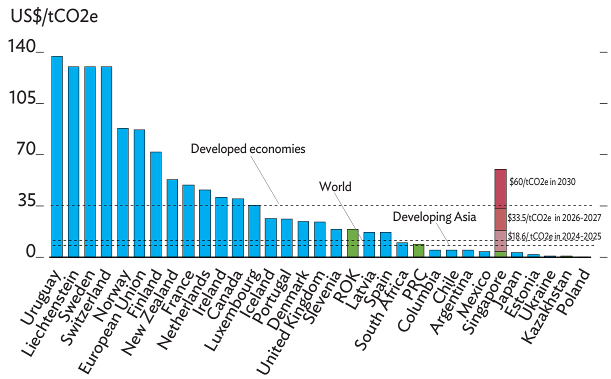
Risks to the outlook remain tilted to the downside amid heightened uncertainty and global headwinds. The main risks include weaker-than-expected economic performance in major trade partners, unexpectedly persistent inflation, and unexpectedly fast monetary policy tightening in advanced economies.

Policy Challenge—Transitioning to a Net-Zero Carbon Emissions Economy

Singapore's decarbonization process has accelerated with rising carbon taxes, imposing social and economic consequences. Singapore instituted a carbon tax in 2019 at S$5 per ton of carbon dioxide equivalent (tCO2e). To achieve the goal of net-zero emissions by mid-century, the government scheduled gradual increase in the carbon tax to S$50–S$80/tCO2e in 2030 (Figure 2.29.7). In the next few years, Singapore's carbon price may be higher than in many other economies in developing Asia, if not the highest. This significant increase in carbon prices, while facilitating Singapore's shift to a low carbon growth path, will have various economic and social consequences in the short and medium term. These challenges are complicated as the world still recovering from the pandemic and facing global headwinds.

Figure 2.29.7 Carbon Prices by Country, 2022

Singapore's carbon price will rise to catch up with that in major advanced economies.



PRC = People's Republic of China, ROK = Republic of Korea, tCO2e = ton of carbon dioxide equivalent.

Notes: Lines are averages carbon prices aggregated using 2019 greenhouse gas emission as weights.

Source: World Bank Carbon Pricing Dashboard.

Economic and social impacts from accelerated decarbonization will be large for high-emitting sectors and vulnerable groups. High-emitting sectors still play significant roles in Singapore's economy. Industry, which provides 25.0% of jobs and 27.1% of GDP, was the largest source of greenhouse gas emissions in 2019, accounting for 45.1%. The use of fossil fuels in oil refineries and petrochemical companies is the main cause of these emissions. Singapore has over 100 chemical firms and was the eighth largest exporter of chemicals in 2019, and it is among the world's top three petroleum refining centers. A high carbon price will saddle these high-emitting sectors will higher costs, which could undermine competitiveness and narrow profit margins. Higher carbon prices will incur job losses in carbon-intensive activities and reveal a skill mismatch for emerging low carbon jobs. Meanwhile, a higher carbon price could push up the cost of goods and basic services like electricity, transportation, and food, inflicting disproportionally large pain on vulnerable groups, thereby challenging inclusiveness. The government estimates that a carbon tax of S$25/t$CO_2$e will boost utility bills by about S$4 per month for 31.5% of households in Singapore.

A comprehensive policy package is needed to support a timely and smooth shift toward low-carbon growth and sustain competitiveness. Besides carbon pricing, green growth policies must support the creation of new green industries to unlock new growth opportunities during the transition. Economic incentives such as tax credits, labeling and other standards, and subsidies could boost innovation and scale up green technologies such as renewable energy and electric vehicles. For example, a rebate on newly registered electric cars and taxis from 2021 to 2023 has encouraged the adoption of electric vehicles. Singapore's Mandatory Energy Labelling Scheme provides information on energy efficiency that encourages people to buy more energy-efficient appliances. Besides incentives that foster investment in green innovation and technology and behavioral change, compensating policies are needed to ensure fairness. Singapore has provided rebates to compensate for the pass-through of carbon tax to lower-income households.

Singapore may expand the use of carbon revenue to address social and growth challenges. Like the Republic of Korea and the PRC, Singapore uses a large part of its carbon revenue to support investment in and adoption of green technologies, as well as to help decarbonize high-emitting businesses. As carbon revenue increases, it can also be used to help affected workers find new jobs through reskilling, training, and information-sharing programs, as well as strengthen social protection and support growth.