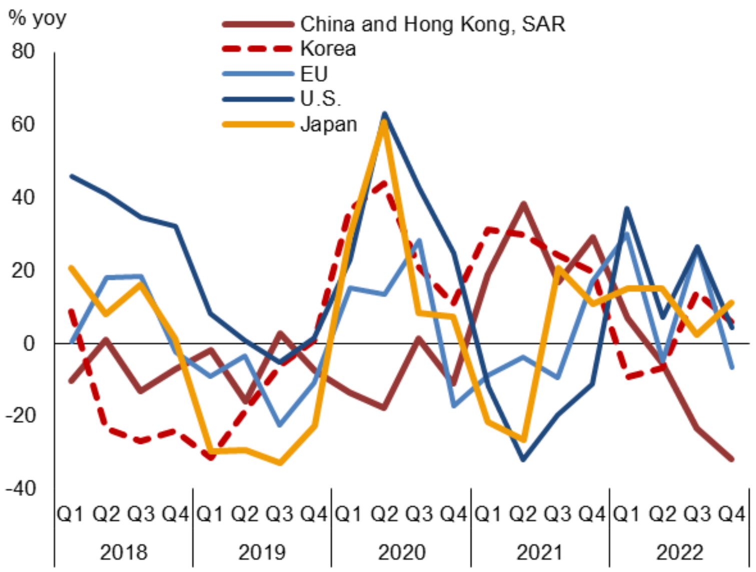
38th SER

May 12, 2023

Risks, Vulnerabilities, and Challenges: Growth, Inflation

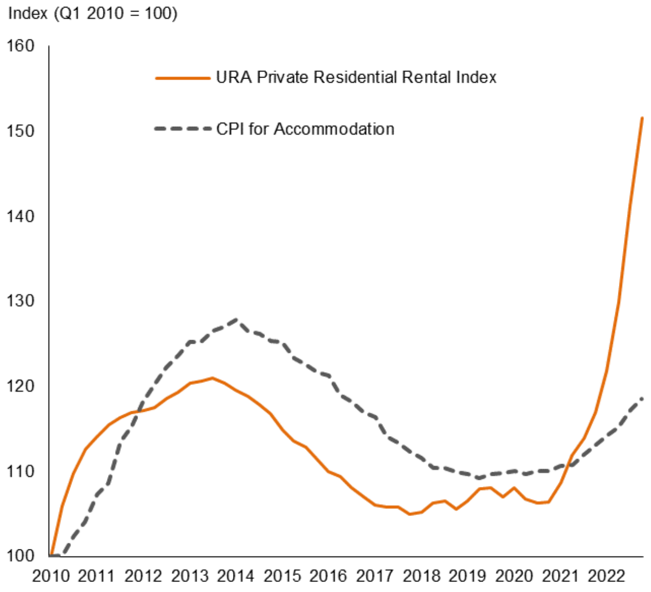
- Gloomier outlook for global growth
  - Impact of rising policy rates in major global economies on external demand
  - Current down cycle in electronics
- Inflationary pressure is likely to persist in the near term
  - External: volatile commodity prices amid lingering geopolitical tension, reopening of China
  - Domestic: car ownership fees, accommodation costs, wage pressure, impact of GST hikes

Exports by Destination



Source: Department of Statistics, CEIC, AMRO staff calculations

Accommodation Costs

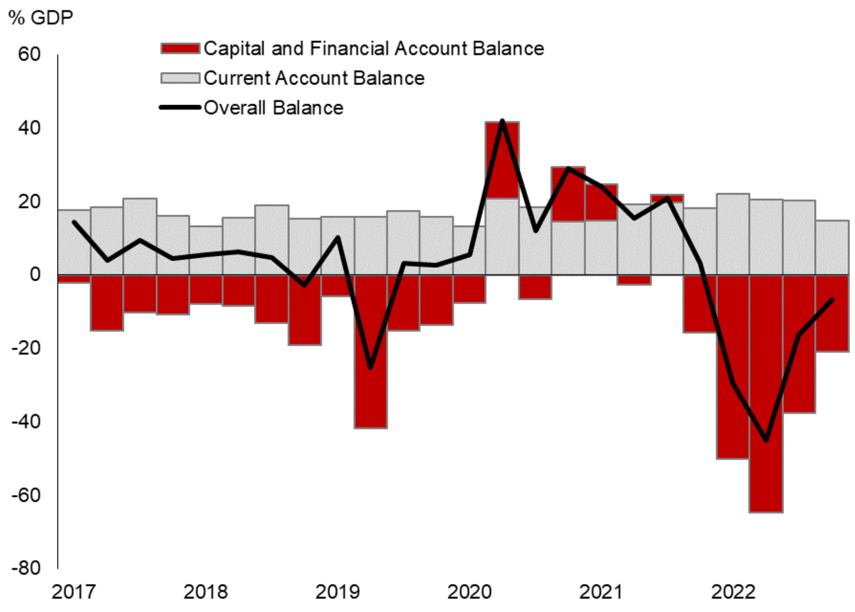


Source: URA, CEIC, AMRO staff calculations

Risks, Vulnerabilities, and Challenges: Capital Flows, Leverage

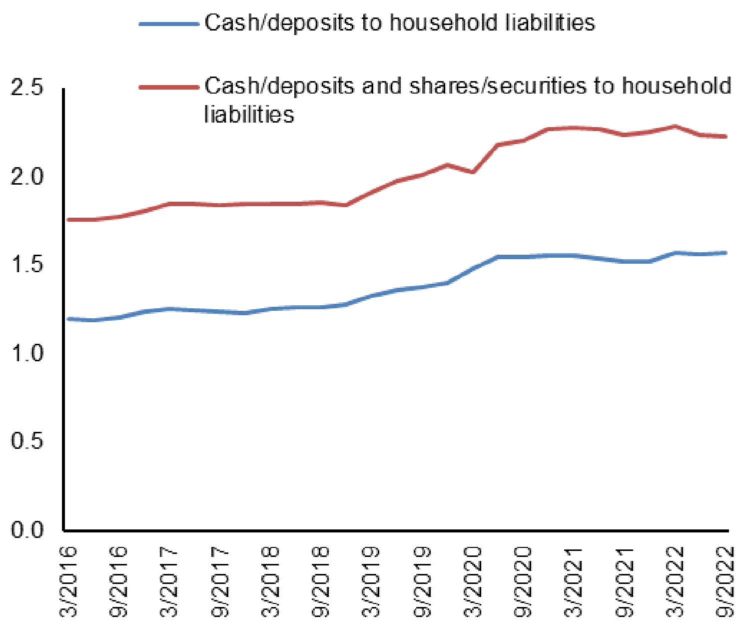
- Episodes of capital flow volatility
  - Unexpected bouts of inflation in key global economies that trigger sudden tightening
  - Increases in risk aversion in global financial markets, especially with Singapore as an IFC
- Financial challenges faced by highly leveraged households and firms have heightened
  - Households: higher debt obligations when borrowers refinance at higher rates
  - Firms: lower profitability and debt-servicing capacity

Balance of Payments



Source: Department of Statistics, CEIC, AMRO staff calculations

Liquid Assets to Total Debt

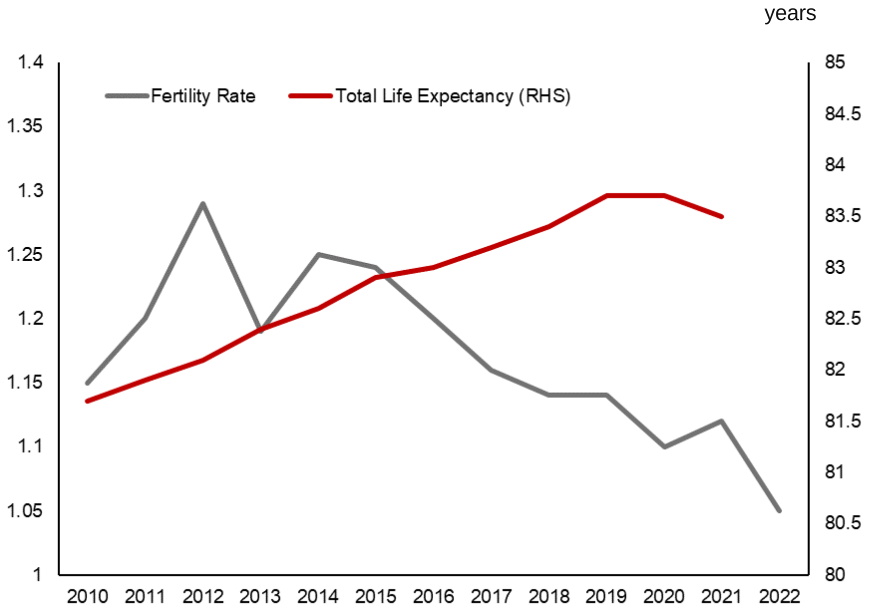


Source: CEIC, AMRO staff calculations

Risks, Vulnerabilities, and Challenges: Aging Population, Climate Change

- Impact of rapid aging on the government's healthcare spending
  - Set to increase to 3.0-3.5 percent of GDP in the FY2026-FY2030 period from 2.5 percent in FY2023
- Regarding climate change, Singapore is highly susceptible to both physical and transition risks
  - Pressing physical threats from rising sea levels and extreme weather events
  - The need to safeguard energy security while advancing the transition
  - Inflation risks along the transition path given structural shifts on the supply side, not least from carbon tax

Demographics



Source: Department of Statistics, CEIC, AMRO staff calculations

Climate Risks

Physical risks	Trend
Higher Temprerature	Annual mean temperature in SG increased from 26.9°C to 28.0°C from 1980 to 2020
Rising sea level	Mean sea levels are rising at a rate of 3 to 4mm per year
More intense rainfall	Annual rainfall total for SG increased at an average rate of 67 mm per decade from 1980 to 2019

Source: The National Climate Change Secretariat, Prime Minister's Office

Policy Discussion: Fiscal Policy

- **Tighter fiscal stance in the FY2023 budget**
  - Warranted in light of increasingly greater need for expenditure, particularly healthcare
  - Stronger revenue streams will help maintain a balanced budget over each term
- **May explore additional revenue to meet long-term spending needs**
  - Efforts to maintain fiscal progressivity (e.g. increase in stamp duties for high-value real estate) are beneficial with a view to lowering inequality
  - Other sources (e.g. raising the Net Investment Returns Contribution) may be considered
- **Growth-promoting fiscal policy through better allocation of public sector resources**
  - Contributions to funds and initiatives aimed towards improving productivity
  - Continued enhancement of infrastructure, as well as spreading out expenditure across generations by relying more on debt issuances under the SINGA framework

Policy Discussion: Monetary Policy

- **Tightening of monetary policy to maintain price stability**
    - Headline inflation may be difficult to manage
        - Car ownership costs and accommodation costs are influenced by policy outside the scope of monetary policy
    - Further tightening may be justified with a view to bringing down core inflation
- **Other policy tools may also be considered**
    - Headline inflation
        - Policies to boost housing supply, alternative allocation mechanisms for COEs
    - Core inflation
        - Implementation of labor policy that promotes wage progressivity (e.g. the Progressive Wage Model) and local employment (e.g. restrictions on foreign workers in certain sectors) should take into account the impact on inflation

Policy Discussion: Macroprudential Policy

- **Current macroprudential stance to cool the property market.**
  - The recent measures have reduced the risk of a destabilizing correction, though the impact remains to be seen
  - Continued efforts to boost public and private housing stock are essential
  - To the extent that they are targeted at high-value assets (e.g. the increase in stamp duties in the FY2023 budget), macroprudential measures can serve as a de facto wealth tax