

Singapore central bank leaves policy on hold as GDP bounces 35% in 3Q

The technical recession may be over but the economy isn't out of woods just yet. A persistently weak services sector suggests that the recovery from the Covid-19 slump is going to be very slow



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On-hold MAS policy

The Monetary Authority of Singapore released its semi-annual [Monetary Policy Statement](#) this morning. The central bank decided to maintain the neutral policy stance implied by the prevailing zero appreciation path for the S\$-NEER within an unspecified policy band. There was also no change either to the width or the mid-point of the policy band. This policy outcome was widely expected by the market.

The Statement pointed to anaemic economic prospects ahead. It noted, "The Singapore economy is expected to see a recovery in 2021, alongside receding disinflation risk. However, the underlying growth momentum will be weak, and the negative output gap will only narrow slowly in the year ahead. MAS Core Inflation will rise gradually and turn positive in 2021, but remain well below its long-term average".

The MAS continues to forecast a 5% to 7% GDP contraction in the current year. Indeed, with this low base, the economy should be in a position to post an above-trend growth in 2021, though travel-related services will remain the weak spot. As for inflation, the MAS sees both headline and core CPI inflation to be in the -0.5% to 0% range this year. The forecasts for 2021 puts the headline inflation at -0.5% to +0.5% and core in 0% to 1.0% ranges.

35.4% 3Q GDP growth
QoQ SAAR

End of technical recession

Also released alongside the MAS policy decision, the advance GDP estimate for 3Q20 showed the economy bouncing by 35.4% QoQ annualised rate. A record GDP bounce was in order after a record 42.9% crash in the previous quarter that resulted from the Covid-19 circuit-breaker measures. It also marks an end of a technical recession implied by the sequential GDP contraction in the two preceding quarters.

The year-on-year contraction also eased to 7% in 3Q from 13.3% in 2Q. It was an across-the-board improvement in all key sectors. But, construction and services continued to be the weak spots with steep declines, by 44.7% YoY and 8.0% YoY respectively. Manufacturing eked out 2% growth, thanks to firmer exports.

This brings the year-to-date GDP contraction to 6.9% YoY, which is in line with our full-year forecast and near the low end of the MAS's forecast range for the year.

What do we think?

The pace of the GDP bounce in 3Q is undoubtedly going to taper sharply over coming quarters as the base effect becomes unfavourable. But the reality is that with continued prospects of anaemic global demand and rising unemployment and bankruptcies at home the recovery is going to be very slow.

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The export-led manufacturing recovery is gaining momentum. But a lot depends on the services sector recovery given the sector's two-third weight in GDP. Earlier this week the MAS's Managing Director, Ravi Menon, warned about "deep scarring" on the key sectors of aviation and tourism, which might not recovery to their pre-Covid state.

All this suggests that there is no room for complacency on the policy front with the fiscal policy continuing to do the heavy-lifting to support the recovery going forward.

