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# Impact of Global Economic Disruptions on Singapore's Balance of Payments

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## Introduction

Since the emergence of the Coronavirus Disease 2019 (COVID-19) in end 2019, global economic activities have been severely disrupted, following the implementation of public health measures such as lockdowns and border closures in many countries, including Singapore. As a financial and trading hub, Singapore is exposed to these COVID-19-led external shocks.

This article examines the impact of COVID-19 on Singapore's balance of payments (BOP). The BOP summarises the economic transactions between Singapore residents[1] and non-residents. In addition, it compares the impact of COVID-19 on Singapore's BOP with similar historical events such as the outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003 and the Global Financial Crisis (GFC) in 2007-2009.

## Current Account

*Current account surplus rose during COVID-19, led by a large decline in services imports. In contrast, during SARS and the GFC, current account surpluses trended downwards with goods surpluses.*

Singapore's BOP current account comprises cross-border flows of goods, services, primary income and secondary income. The current account surpluses have historically been attributed to goods account surpluses since 1995 and in times of the SARS

### What is the Balance of Payments?

**Balance of Payments** is a statement that summarises the economic transactions between residents of an economy and non-residents. It is the **overall balance** of the current account and the capital and financial account. These transactions are financed by official reserves.

**Current Account** is a set of transactions consisting of exports and imports of goods and services, as well as primary and secondary income receipts and payments.

**Capital and Financial Account** covers net acquisitions of foreign financial assets by Singapore residents and net incurrence of foreign liabilities by Singapore residents.

**Reserve Assets** show the changes in Singapore's foreign reserves holdings, consisting of Singapore's official holdings of monetary gold and foreign exchange assets, as well as Singapore's special drawing rights and reserve position in the International Monetary Fund.

1 Residents refer to individuals residing in the country, corporations and enterprises located in the country, as well as its embassies, military units and official missions stationed abroad.

outbreak and the GFC, the fall in current account surpluses generally corresponded with lower goods account surpluses. While the goods surplus declined in 2020 amidst COVID-19, the current account surplus rose 13.2 per cent from a year ago to $82 billion on the back of a larger services account surplus and a smaller primary income deficit. The current account surplus was 17.6 per cent of Gross Domestic Product (GDP) in 2020, a moderate increase from the pre-COVID-19 average of 16.6 per cent between 2015 and 2019 though it remained generally lower in comparison to the periods of the SARS outbreak and the GFC (Chart 1).

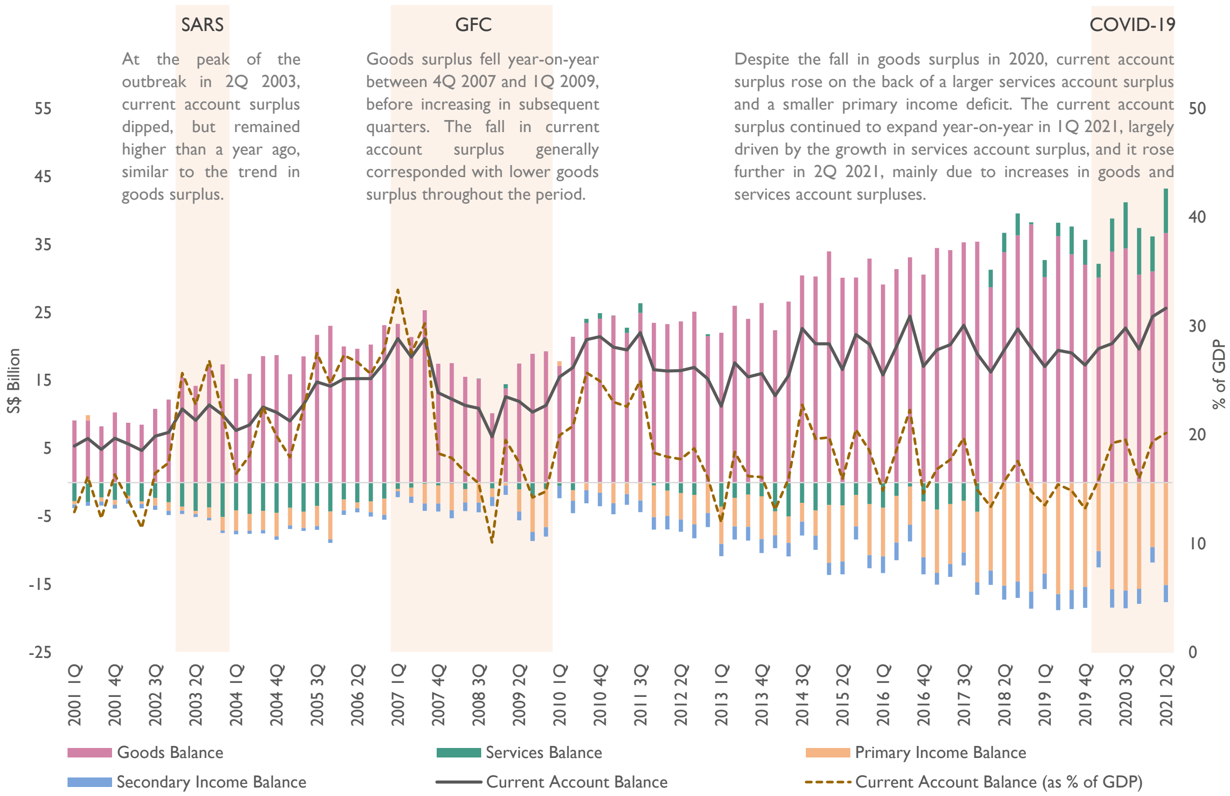
## Goods Account

With the occurrence of COVID-19, Singapore's goods account surplus contracted by 2.2 per cent from a year ago to $129 billion in 2020, with exports and imports of goods decreasing 5.7 per cent and 6.6 per cent respectively. Although non-oil domestic exports (NODX) growth held up, supported by strong exports of pharmaceuticals and electronics, overall merchandise exports declined, weighed down mainly by oil trade amid low oil prices. Similar to goods exports, goods imports plunged in 2Q 2020, before rebounding to near pre-COVID-19 levels in the next two quarters, under the influence of global oil prices.

While the goods surplus dipped quarter-on-quarter during the peak of the SARS outbreak in 2Q 2003, the adverse economic impact of the epidemic was not apparent from exports and imports of goods which increased from the previous quarter. The goods surplus remained substantially higher than the previous year by two-thirds, as goods exports rose 7.8 per cent while goods imports fell 1.2 per cent.

In the midst of the US-centric subprime mortgage lending crisis between 4Q 2007 and 3Q 2008, the goods surplus trended downwards, with imports of goods increasing faster than exports. It was only after the GFC deepened in the second half of 2008 that its impact became more noticeable with relatively steep declines in cross-border flows of goods. From 4Q 2008 to 3Q 2009, goods exports and imports contracted year-on-year in the range of 5.4 per cent to 27.8 per cent. Correspondingly, goods surplus declined 41.7 per cent and 21.1 per cent in 4Q 2008 and 1Q 2009 respectively, before rebounding in the subsequent quarters.

**CHART 1 CURRENT ACCOUNT, 1Q 2001 - 2Q 2021**



## Services Account

Amidst COVID-19, the services account surplus rose from $12 billion in 2019 to $21 billion in 2020 as the 16.1 per cent decline in services imports exceeded the 12.7 per cent decline in exports. The fall in net payments of travel services was the main driver of the increase in the services account surplus, alongside transport services which turned from net payments in 2019 to net receipts in 2020.

Travel receipts and payments suffered unprecedented declines of 74.1 per cent and 74.7 per cent in 2020, as tourist arrivals and resident departures fell sharply due to the implementation of border controls to curb cross-border transmissions. The impact was particularly pronounced in 2Q 2020 when stricter travel restrictions were imposed in response to the worsening spread of COVID-19. Travel receipts plunged 86.7 per cent year-on-year to a historic low of $886 million, following the 35.8 per cent decrease in 1Q 2020. Concomitantly, travel payments fell precipitously by 93.2 per cent from a year ago to $644 million in 2Q2020, the lowest on record since the early 1990s, after declining 19.6 per cent in 1Q 2020. Trade in travel services remained subdued from 3Q 2020 onwards due to ongoing travel restrictions. Similarly, exports and imports of transport services fell 14.0 per cent and 17.6 per cent respectively in 2020, with quarterly trends corresponding to the severity of the outbreak over time (Charts 2 and 3).

In comparison, the impact of SARS was less significant as it was contained relatively rapidly without the need for extensive border restrictions. Although exports and imports of travel and transport services dipped during the height of the outbreak in 2Q 2003, it was followed by a quick recovery in the next quarter. While trade in travel and transport services similarly trended downwards in 2009 amidst the GFC, the impact was less significant compared to COVID-19.

Generally, the impact of COVID-19 on the BOP services account was severe, but uneven. In addition to travel and transport services, other business services exports and imports fell in 2020 by 3.7 per cent and 4.2 per cent respectively after expanding consistently in recent years. Exports of maintenance and repair services fell 27.5 per cent, more significantly than imports at 17.0 per cent, while construction services exports and imports registered respective declines of 35.9 per cent and 36.3 per cent. Similarly, charges for the use of intellectual property saw declines in receipts and payments, albeit at relatively moderate rates of

**CHART 2 SERVICES EXPORTS, 1Q2001 - 2Q 2021**

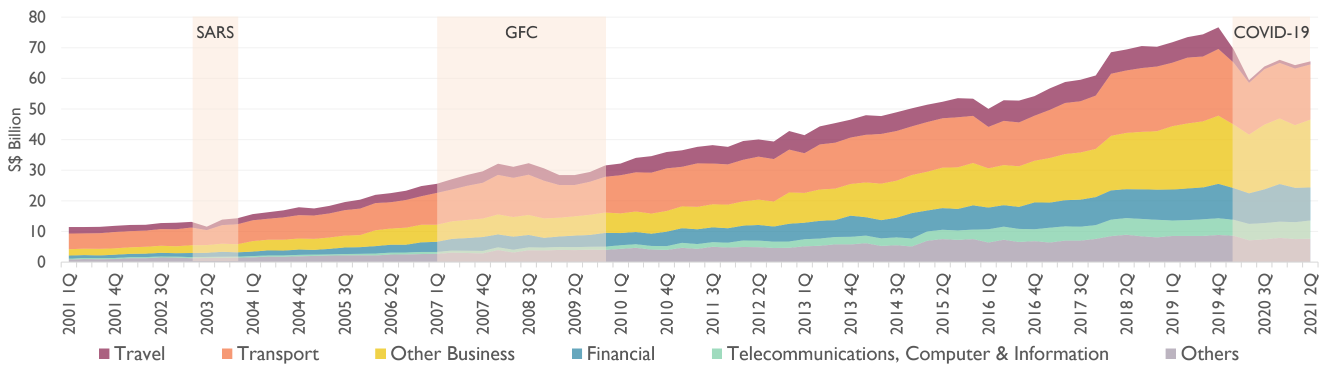
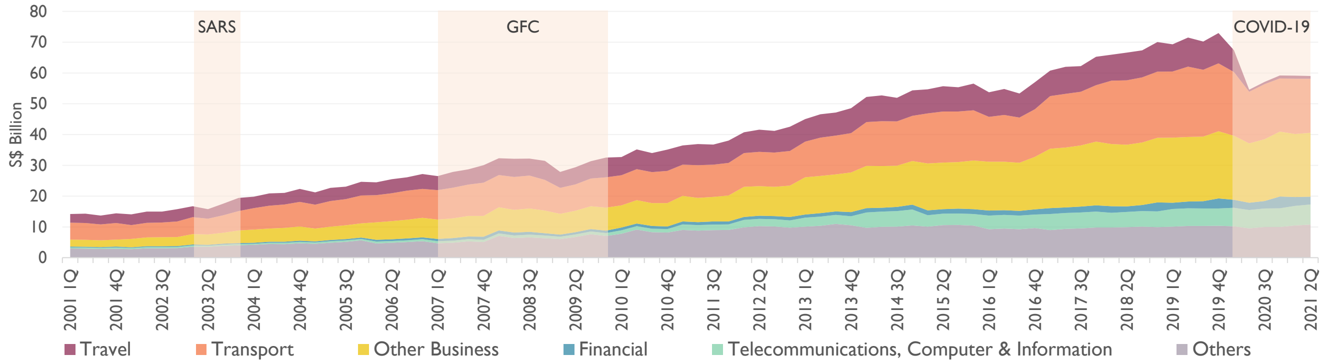



**CHART 3 SERVICES IMPORTS, 1Q2001 - 2Q 2021**



1.4 per cent and 1.0 per cent respectively. In contrast, trade performance of financial services was strong, with exports and imports increasing 3.7 per cent and 13.9 per cent respectively. Similarly, exports of telecommunications, computer & information services held up and was almost unchanged from a year ago, while imports grew 5.5 per cent.

## Primary and Secondary Income Accounts

In 2020, the primary income deficit narrowed from $61 billion a year ago to $57 billion, with primary income receipts and payments decreasing 7.8 per cent and 7.3 per cent respectively. Prior to COVID-19, primary income receipts and payments had generally been expanding since 2009, after significant declines of 21.6 per cent and 17.0 per cent were last recorded in 2008 during the GFC. Despite the occurrence of SARS, primary income receipts and payments registered strong growth in the early 2000s before the onset of the GFC (Chart 4).

On the other hand, the secondary income deficit narrowed 5.7 per cent to $9.9 billion in 2020 as secondary income receipts grew 0.7 per cent while payments fell 1.2 per cent. The trends in secondary income have generally been stable in comparison throughout the years, seemingly resilient to disruptions caused by major global economic events.

# Financial Account

*General decline in direct investment during prolonged disruptions, but impact on portfolio and other investment mixed.*

Singapore's BOP financial account is a measure of Singapore's net acquisition of financial assets and net incurrence of financial liabilities from non-residents and consists of main functional categories such as direct investment, portfolio investment, financial derivatives and other investment. The financial account had persistently recorded annual net outflows from 2001 to 2019, even during SARS and the GFC, though the latter episode saw periods of discernible declines in net financial outflows. In comparison, COVID-19 had a greater impact on the financial account and resulted in Singapore switching from a position of net financial outflows to the rest of the world to net inflows in 2020 (Chart 5).

## Direct Investment

Singapore's direct investment was the least affected by the SARS outbreak as overall annual net inflows still grew by $17 billion in 2003 as compared to a year ago, largely owing to significant foreign direct investment inflows. Despite a $20 billion decline in inward flows from non-resident investors in 2Q 2003 at the height of SARS, this was partially offset by the subsequent $13 billion increase in direct investment inflows in the following quarter as the spread of the virus was contained and investor confidence returned. In contrast, the GFC resulted in economic instability stemming from the subprime mortgage crisis to the collapse of US investment bank Lehmann Brothers, which led to both direct investment assets and liabilities in Singapore plummeting 81.7 per cent and 73.0 per cent respectively in 2008 from the then-historic peaks in 2007. Investors cut back on cross-border investments during the GFC period,

**CHART 4** PRIMARY AND SECONDARY INCOME ACCOUNTS, 2001 - 2020

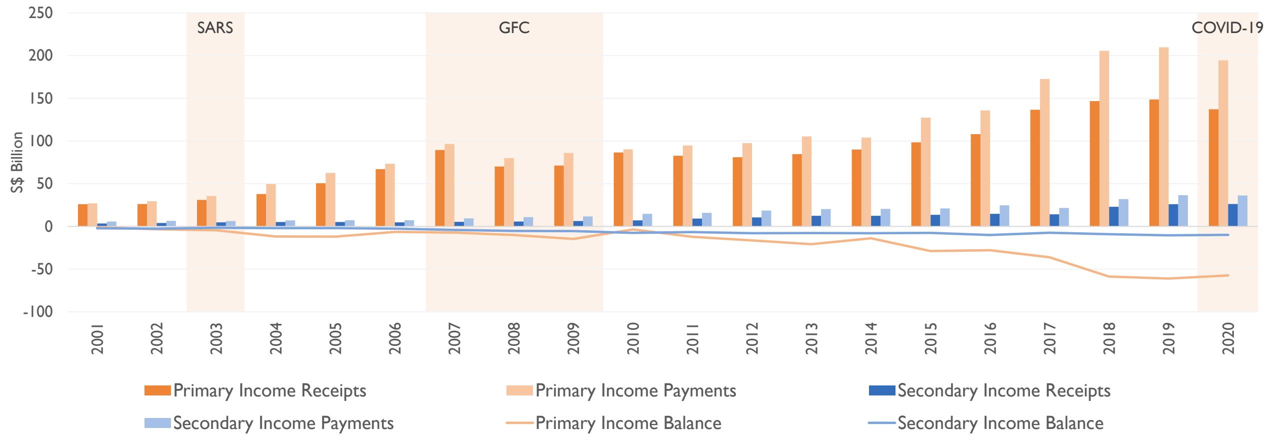
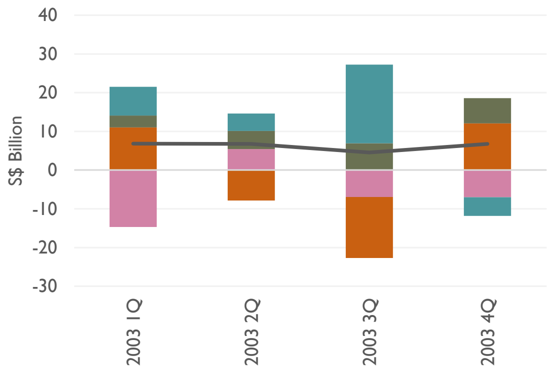


**CHART 5** COMPARISON OF GLOBAL ECONOMIC EVENTS ON THE FINANCIAL ACCOUNT

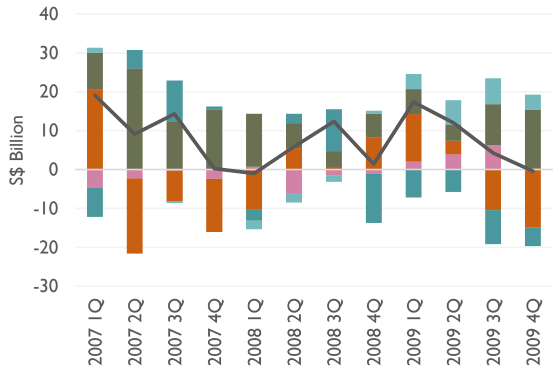
### SARS

Financial account net outflows dipped slightly at the height of the SARS outbreak in 2Q 2003 and the decline extended into 3Q 2003.



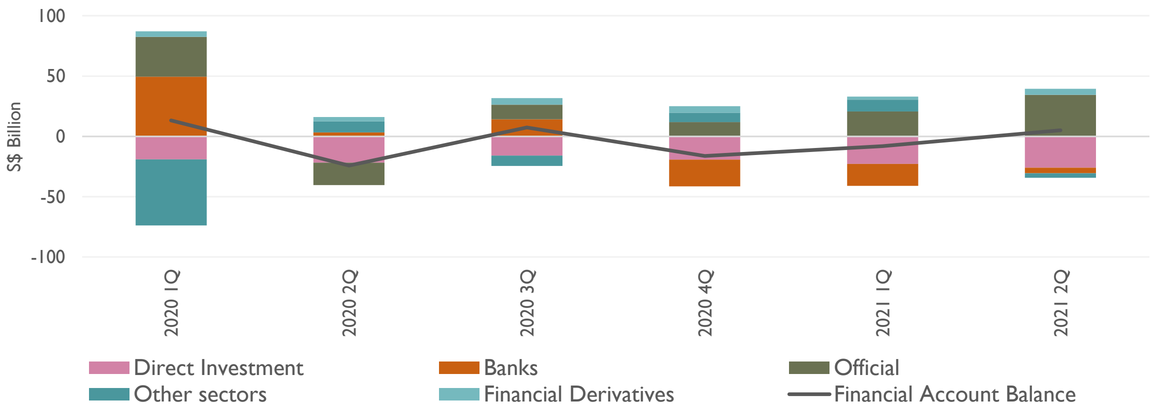

### GFC

Financial account net inflows was registered in 1Q 2008, contributed by net inflows of financial derivatives and other investment.




### COVID-19

Rapid fluctuations in the levels of financial account flows, switching from net outflows to net inflows from one quarter to the other from 1Q 2020 to 2Q 2021.




Note: Financial Derivatives is only available from reference year 2006 onwards.

before a gradual recovery saw direct investment assets outpacing liabilities throughout the quarters of 2009. Similarly, direct investment annual net inflows experienced a slowdown due to COVID-19, which saw a 20.3 per cent year-on-year decline in 2020 on the back of lower foreign direct investment into Singapore and residents' direct investment abroad (Chart 6).

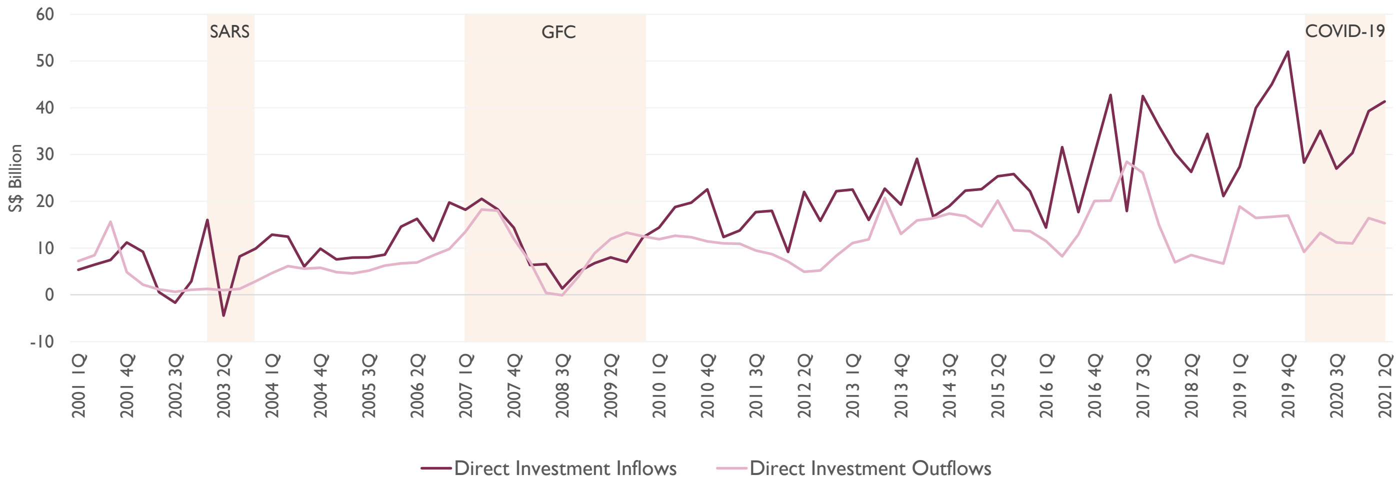
## Portfolio Investment

Portfolio investment, comprising mainly transactions in equity and investment fund shares, has been recording annual net outflows for most years over the last two decades, largely driven by movements in the banking (i.e. deposit-taking corporate) sector. The exception was in 2008, as the onset of the GFC brought about substantial withdrawals of overseas debt securities by resident deposit-taking corporations, resulting in a sharp decline in portfolio investment assets. This in turn reversed portfolio investment annual net outflows of $72 billion to net inflows of $16 billion.

During COVID-19 in 2020, resident banks similarly scaled back on activities in foreign markets by selling overseas debt securities, switching from net purchases in the preceding year. On the other hand, net outflows of portfolio investment shrank against

**CHART 6**

**QUARTERLY INFLOWS AND OUTFLOWS OF FOREIGN DIRECT INVESTMENT, 1Q2001 - 2Q22021**




the backdrop of SARS in 2Q 2003 through 3Q 2003 but ended the year positively with 40.7 per cent year-on-year growth for the full year.

## Other Investment and Financial Derivatives

Other investment has generally been volatile and was driven by broad-based transactions in all institutional sectors. The volatility was evidenced by large swings in financial flows during the periods of crises, especially during the GFC in 2007-2009 and COVID-19 since 1Q 2020.

The huge fluctuations to other investment assets and liabilities were largely attributable to banking sector movements, notably throughout the quarters in 2008 and especially in the first half of 2020, with interbank activities switching between net outflows and net inflows in view of heightened financial market instability before subsequent sharp corrections as the market normalised.

In addition, net inflows of other investment in the domestic non-bank private sector surged to a record high in 2020, outstripping the net inflows during the GFC in 2008 while other investment net outflows increased year-on-year in 2003 in the midst of the SARS outbreak.

Meanwhile, cross-border financial derivatives consistently recorded overall net outflows during COVID-19 in 2020. In contrast, substantial transactions in both assets and liabilities undertaken in the derivatives markets during the GFC resulted in net outflows in 2007, followed by a shift to net inflows in the following year before reverting to net outflows in 2009.

## Overall Balance and Reserve Assets

Singapore's BOP registered a surplus of $103 billion in 2020, reversing from a deficit of $11 billion a year ago, due largely to a turnaround in the financial account balance from net outflows to net inflows alongside a relatively moderate increase in the current account surplus. In comparison, the BOP surpluses during SARS and the GFC were driven mainly by the persistent current account surpluses recorded throughout both periods.

## Conclusion

Being a small and open economy, Singapore has experienced the ripple effects of global economic disruptions over the last two decades. While Singapore's overall BOP has generally recorded surpluses during the period, the extent to which its various accounts and balances were affected depended on a confluence of factors such as the scale and duration of such disruptions as well as the underlying economic conditions.

By highlighting the impact of past and present downturns, this article serves as a useful analytical reference to better understand the potential effects of future external headwinds on Singapore's BOP.