

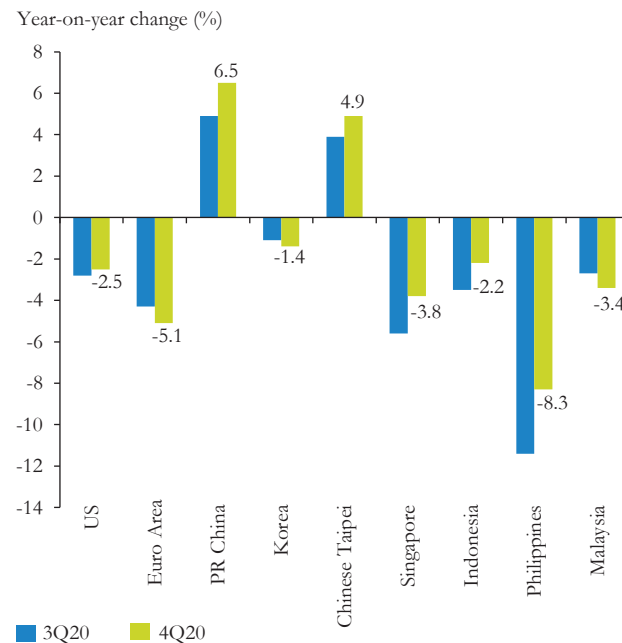
International Economic Environment

HIGHLIGHTS

- The global economy continued to recover in the fourth quarter of 2020.
- Regional exports continued to rebound.
- Financial market volatility remained elevated.

Global growth recovery continues

Chart 1: GDP Growth of Selected Economies



Source: National authorities

The global economy continued to recover in the fourth quarter of 2020, buoyed by improvements in trade activity and domestic demand conditions. The overall pick-up in production activity led to broad-based improvements in labour market conditions, and consequently private sector expenditure. However, in the euro area, the pace of recovery slowed as COVID-19 resurgences necessitated further re-tightening of containment measures.

The US economy contracted at a slower pace of 2.5% (3Q 2020: -2.8%), driven by a rebound in private investment and improvement in private consumption.

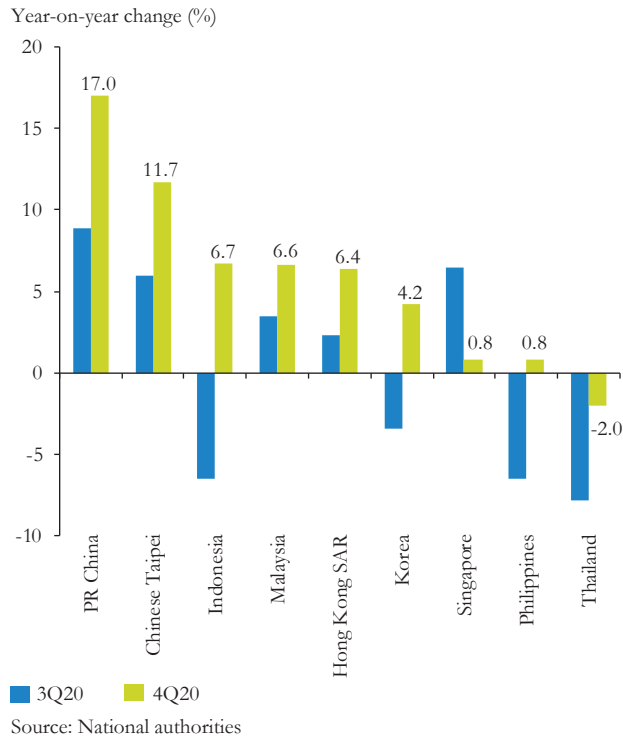
Meanwhile, growth in the euro area registered a larger contraction of 5.1% (3Q 2020: -4.3%) as containment measures weighed on the services sector.

PR China recorded positive growth of 6.5% in the fourth quarter of 2020 (3Q 2020: 4.9%), thus realising a full recovery back to pre-pandemic growth levels. Firm control over the epidemic lifted sentiments and

facilitated a broad-based recovery across consumption, investment and net exports. These were further supported by the start of its vaccination programme.

Continued strength in regional exports

Chart 2: Exports Growth of Selected Economies

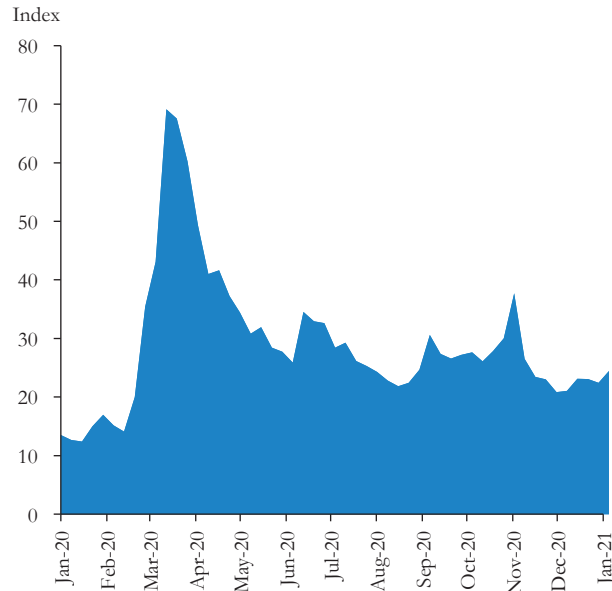


Building on the rebound in exports in the third quarter, the region benefitted from a continued improvement in exports in the fourth quarter of 2020. Strong domestic and external activity in PR China anchored

the recovery of the region's value chains, as all major regional economies with the exception of Singapore, recorded an improvement in exports.

Financial market volatility remains elevated

Chart 3: CBOE VIX



Source: Bloomberg

Financial market volatility remained elevated in the fourth quarter of 2020 (average: 25.6; 3Q 2020 average: 25.9; 2Q 2020 average: 34.5). Market conditions were particularly volatile in November, as positive news relating to the rollout of COVID-19 vaccines during the month, was accompanied by resurgences of COVID-19 and a re-tightening of containment measures in major advanced economies such as the US, UK and several euro area Member States.

Brent crude oil prices improved to an average of USD45 per barrel during the quarter (3Q 2020 average: USD43 per barrel), driven mainly by higher global oil demand and positive sentiments surrounding the COVID-19 vaccine rollout. The ongoing OPEC+ production cuts since May 2020 also continued to provide support to crude oil prices.