RAM

RATINGS

Media Release

RAM Ratings: Robust external and fiscal position solidifies Singapore's $_g$AAA$_{(pi)}$ rating despite near-term challenges

RAM Ratings has reaffirmed Singapore's respective global-scale and ASEAN-scale sovereign ratings of $_g$AAA$_{(pi)}$/stable and $_{sea}$AAA$_{(pi)}$/stable. The ratings are backed by the country's solid external strength, robust financial profile and strong institutional framework and fundamentals which continue to support and drive its resilient economy. These strengths negate the exposure of Singapore's highly open and small economy to external conditions, and structural challenges pertaining to labour and an aging population.

The trade-driven economy has experienced slower GDP growth as a result of external factors and government reforms. The sluggish economic performance of trading partners such as China, exposure to the oil and gas sector, as well as government reforms towards a higher-value-added economy have resulted in slower growth. The government expects GDP growth to come in between 1% and 2% in 2016 amid the limited recovery of trading nations and uncertainty arising from Britain's decision to leave the EU, which could have a spillover effect on the global economy and spark bouts of risk aversion and volatility in the financial markets.

The government will maintain an expansionary budget this year, focusing on supporting small and medium enterprises during the economic slowdown and addressing structural challenges. The higher expenditure will be supplemented by the inclusion of Temasek's net investment income for the first time this year, which will boost total revenue. Overall, the government expects to register a small surplus in FY 2016. Prudent budgeting practices over the years have enabled the accumulation of large fiscal reserves – held in the country's sovereign wealth fund (SWF) – which provide an additional boost to the government's revenue stream and act as a buffer for its high debt level. However, as most of the country's assets are held abroad, the challenging external environment may affect the SWF's near-term performance.

Singapore's external position remains one of its key strengths. The highly competitive economy has helped the island republic to consistently record large current-account surpluses (5-year average: 19.2% of GDP). However, a weak external environment, supply-side constraints and low oil and gas prices are

RAM Rating Services Berhad
(763588-T)
Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
T +603 7628 1000
+603 2299 1000
F +603 7620 8251
E ramratings@ram.com.my
W www.ram.com.my

expected to narrow the current-account surplus this year. On a separate note, we also view the country's stable political environment and top-tier governance favourably, the government having taken effective pre-emptive measures to ensure economic stability. This is observed in macroprudential measures introduced to reduce speculation in the housing market, and consistent regulation of the banking sector to ensure Singapore's stability as a financial centre.

Analytical contact
Serene Tan
(603) 7628 1088
serene@ram.com.my

Media contact
Padthma Subbiah
(603) 7628 1162
padthma@ram.com.my

Date of release: 29 August 2016

Published by RAM Rating Services Berhad