RAM RATINGS

Media Release

RAM Ratings: Singapore's improving growth prospects propelled by robust external trade

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 support and drive Singapore's resilience. These positives balance out the exposure of Singapore's highly open and small economy to external conditions, and structural challenges pertaining to labour and an aging population.

RAM expects GDP growth to clock in between 2.5% and 3.0% this year, spurred by strong external trade, as export trends show signs of recovery. This helps offset distress seen in the domestic sector, with slowing wage growth and a rising number of retrenchments. Meanwhile, macroprudential measures introduced in the past continue to moderate home prices, which are however bottoming out. We do not expect a rapid reversal of these measures, given some signs of stabilisation and the government's policy intention to correct the surge in residential prices post-global financial crisis. The commercial property sector has also been affected by a decelerating economy in the past year and muted consumer sentiment. In any case, slowing supply in the pipeline and improving economic activity will reduce commercial price pressures.

"We view the expansionary budget in recent years as a necessity, to address long-term issues such as an aging population and transform the economy into a higher-value-added one," notes Esther Lai, RAM's Head of Sovereign Ratings. Increased spending was supported by a revision in Temasek Holdings' net investment returns contribution (NIRC) in 2016, amounting to SG$14.4 billion (or 3.5% of GDP) (2015: SG$9.9 billion). The government's prudent fiscal stance has enabled an accumulation of sizeable fiscal reserves, which totalled SG$835 billion (203% of GDP) as at August 2017, giving it ample fiscal space. In Budget 2017, expenditure continues to focus on areas such as healthcare, education and incentives for firms to upskill and invest in technological advancements. Overall, the fiscal surplus is anticipated to come in at SG$1.9 billion (0.5% of GDP) for 2017.

Singapore's external position remains one of its key strengths, with expectations of a current-account surplus of 20% of GDP this year, driven by better trade prospects.

The city-state is also a net external creditor, with a net international investment position to the tune of US$635.3 billion in 2016, which is mainly attributable to the country's large sovereign wealth fund. Additionally, we view the country's highly responsive and forward-looking government favourably. This is evident in its efforts to encourage technological advancements to bolster productivity growth and its recent focus on financial technology against the backdrop of an evolving landscape in this field and Singapore's position as a financial hub.

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