RAM RATINGS

Media Release

RAM Ratings reaffirms Singapore's $_{g}$AAA(pi) ratings

RAM Ratings has reaffirmed Singapore's respective global and ASEAN-scale sovereign ratings of $_{g}$AAA(pi)/stable/$_{g}$P1(pi) and $_{sea}$AAA(pi)/stable/$_{sea}$P1(pi). The ratings are underpinned by the republic's commendable budgetary position – which is backed by sizeable reserves – and a superior external position. While Singapore is expected to face some structural challenges associated with its aging demographic and slower productivity growth, recent policy adjustments are anticipated to mitigate these effects in the long run.

Singapore's external position remains a rating strength, anchored by its status as the region's key trade and financial centre, and its ability to consistently generate sizeable current account surpluses throughout the economic cycle. The city-state is also a net external creditor, with a net international investment position to the tune of US$804.3 billion in 2017, mainly attributable to the country's large sovereign wealth funds.

We expect GDP growth to moderate to 2.6% in 2018 (2017: 3.6%), as robust growth in the first half of the year, which is driven by better labour market conditions, will decelerate in the second half amid a likely slowdown in global trade activity. The uptrend in house prices since 2H 2017 is expected to ease following recent property market cooling measures and will consequently minimise the economic and social impact of a lack of affordable homes.

Singapore's fiscal surplus at 2.1% of GDP in FY 2018 exceeded initial budgetary expectations of 0.5% and extends the country's track record of maintaining fiscal surpluses, with intermittent years of deficits. This performance is viewed as superior relative to most sovereigns in RAM's portfolio. Recently announced long-term measures, which include a commitment to raise the GST rate by two percentage points, the expansion of GST coverage to include imported services, and the introduction of a carbon tax, are envisaged to further strengthen Singapore's fiscal profile. These proposed moves are timely as fiscal costs associated with an aging population will likely rise over the long term.

That said, Singapore's highly open economic structure exposes it to recent global financial and trade volatility amid the intensification of the US-China trade dispute and the ongoing tightening of US monetary policy. While the impact of these events on growth can be significant, this is largely mitigated by the republic's proven ability to deploy its vast store of fiscal reserves (in aggregate: 222.9% of GDP as at end-2017) efficiently to support economic activity.

Analytical contact
Jason Fong
(603) 7628 1103
jason@ram.com.my

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

Date of release: 29 August 2018

Published by RAM Rating Services Berhad