RAM

COUNTRY ASSESSMENT REPORT

August 2010

REPUBLIC OF SINGAPORE

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RATINGS

COUNTRY ASSESSMENT REPORT

PUBLIC FINANCE RATINGS

AUGUST 2010

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Singapore at a Glance[1]:

Population:
4.8 million (2009);
median age: 39.6 years

Nominal GDP:
SGD257.6 billion (2009) or USD177.1 billion

Nominal GDP per capita:
USD37,293 (2009)

Real GDP growth:
2004-2008 (average): 7.0%
2009: -1.3%
2010: 13%-15% (official forecast)

Unemployment rate:
3.0% (2009)

Inflation rate:
0.2% (2009)

Government debt:
110.6% of GDP (2009)

Government net debt:
-67.5% of GDP (2009, estimated)

Interest rate:
0.55% (3-month Treasury Bill, December 2009)

Official foreign reserves:
SGD264.0 billion (2009)
(about 9 months of imports)

ASIA
– Republic of Singapore

Summary

As part of the 4-nation cluster commonly referred to as the newly industrialised countries ("NICS"), Singapore's gross domestic product ("GDP") of USD177.1 billion (end-2009) ranked last behind Taiwan, Hong Kong and South Korea. The island republic is, in fact, one of the smallest economies in Asia.

Nonetheless, its deceptively small stature is amply compensated by its economic prowess; Singapore is perceived as the easiest country to conduct business in; it is deemed the world's third-most competitive economy and is seen to have top-tier governance. In addition, the island state is one of the most prosperous nations in Asia (based on GDP per capita).

In light of its small population, Singapore's economy has been modelled to thrive on external demand and investments. This structure invariably leaves the country's economy vulnerable to the vagaries of global demand cycles, as experienced during the commodities crash in 1985 (when its real GDP contracted 0.7%), the information-technology ("IT") industry's meltdown in 2001 (-1.2%), the Asian financial crisis in 1997/98 (-2.1%) and the recent global downturn (-1.3%).

Moving forward, we believe Singapore's longer-term prospects are stable. Apart from its most recent show of resilience in 2009, the Singaporean economy had also rebounded quickly after each of its previous setbacks – a positive reflection of the economy's flexibility and resilience. This strength is supported by a variety of factors, including the government's fiscal prudence, political stability, investment-friendly policies, and the availability of world-class infrastructure and skilled labour. In a nutshell, these factors manifest themselves in Singapore's well-regarded standing (judging by its positions in the aforementioned global

[1] Sources for *Singapore at a Glance* (side bar): IMF, CIA World Fact Book, Monetary Authority of Singapore, Singapore Department of Statistics, CEIC Data and RAM Ratings' calculations/estimates.

System of government:
Parliamentary republic

Head of State:
President S R Nathan
(since September 1999)

Head of Government:
Prime Minister Lee Hsien Loong (since August 2004)

Presidential elections:
Last held in August 2005; next expected by August 2011

Parliamentary elections:
Last held in May 2006; next expected by 2011

indices) among international investors. Balance-of-payment data indicates that inflows of foreign investments remained positive through 2008 and 2009, despite the global financial turmoil.

While Singapore stands among the choice investment destinations in the region, it has at the same time accumulated its own share of foreign assets. As at end-2009, overseas investments by Singaporean nationals (including official foreign reserves held by its central bank, i.e. the Monetary Authority of Singapore or MAS) were 1.5 times larger than the total stock of foreign investments in the country. In other words, broad external-liquidity indicators appear healthy. As at end-2009, Singapore's net external assets were equivalent to about 232% of its GDP while the country's official foreign reserves were sufficient to finance about 9 months of imports.

Meanwhile, we believe that the Singaporean government is in top fiscal shape, underpinned by a net-cash position (government deposits and investments exceed its sovereign debt) equivalent to about 67% of its GDP. This wealth has been built against a backdrop of economic prudence. Fiscal surpluses aside, this prudence is underlined by a constitutional provision that requires the government of the day to protect the reserves accumulated by previous ones.

Last but not least, the Singaporean political front has been stable for decades; the People's Action Party has been the ruling party since 1959. To date, the country has only had 3 Prime Ministers (including incumbent Lee Hsien Loong). We note that long-serving governments may be a double-edged sword – providing stability and continuity on one hand, or breeding entrenched complacency and weak policies on the other. In Singapore's case, we believe that political stability has been used to good effect. The island republic is world-renowned and recognised for its economic vigour; this, in our view, is a testament of the Singaporean government's acumen.

Economic Performance

➢ Recent Performance

Slip in real GDP in 2009 less severe than initially forecast

In 2009, Singapore's real GDP contracted 1.3% as the country's external-oriented industries and services sectors felt the brunt of the global economic slump. While notably weaker against an average growth of 7.5% per annum in the 5 years prior to 2008, the 1.3% decline is substantially less severe than the double-digit contraction expected in the earlier part of last year. This better-than-feared outcome was in fact true for many economies, aided by government policy responses worldwide. Similarly, government expenditure/consumption had provided support to the Singaporean economy in the second half of 2008 and through 2009 (Chart 1, right panel).

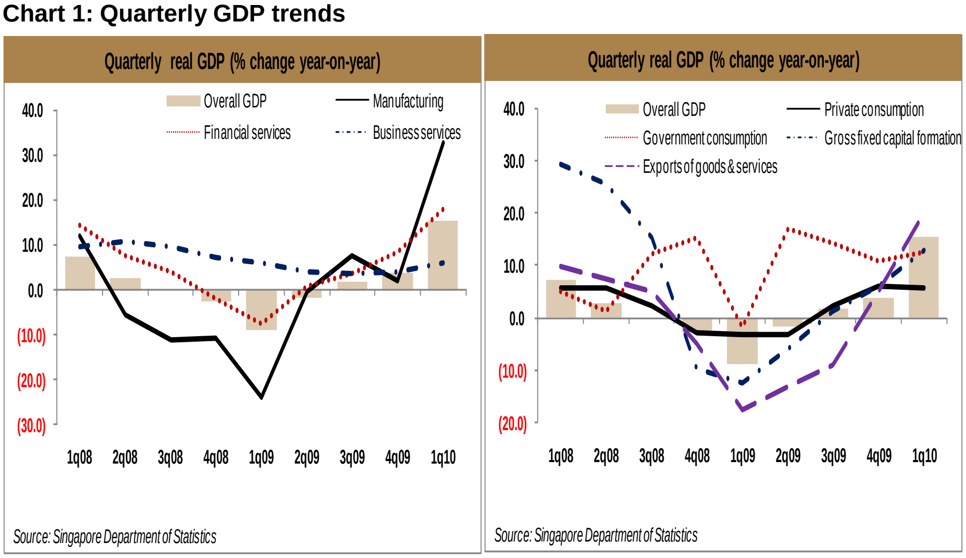
Table 1: Better-than-expected GDP performances in 2009

	WEO April 2009 (A)	WEO October 2009	WEO April 2010 (B)	Difference (B) – (A) (% pts)
Global	-1.3	-1.1	-0.6	+0.7
Advanced economies	-3.8	-3.4	-3.2	+0.6
Developing Asia*	4.8	6.2	6.6	+1.8
NICS	-5.6	-2.4	-0.9	+4.7
Hong Kong	*-4.5*	*-3.6*	*-2.7*	*+1.8*
Korea	*-4.0*	*-1.0*	*0.2*	*+4.2*
Singapore	*-10.0*	*-3.3*	*-2.0*	*+8.0*
Taiwan	*-7.5*	*-4.1*	*-1.9*	*+5.6*

Source: IMF World Economic Outlook ("WEO") database

* *Developing Asia represents a group of 26 countries, including Malaysia.*

Chart 1: Quarterly GDP trends



Sharp rebound in 1H 2010

Singapore's real GDP leapt 16.9% year-on-year ("y-o-y") in 1Q 2010, on the back of a comparatively weak 1Q 2009 (-8.9%) and a brightening global outlook. On the supply side, the rebound was led by the country's manufacturing sector (+38.2%), signalling a pick-up in external demand after a dismal 2008/09. After 4 consecutive quarters of contractions (4Q 2008 to 3Q 2009) and a modest turnaround in 4Q 2009 (+4.8%), Singapore's exports augmented 20.0% y-o-y in 1Q 2010. The robust performance continued into 2Q 2010, during which Singapore's GDP is estimated to have grown 19.3% y-o-y.

Table 2: Summary of the Singaporean authorities' selected responses to the downturn

	Response
Fiscal stimulus[1]	Unveiled SGD20.5 billion Resilience Package in 2009 budget. On the whole, the budget envisaged a 12% increase in spending (compared to the revised estimate for the preceding year).
Monetary policy/ Monetary easing	Singapore's monetary policy centres on maintaining the exchange rate within an "exchange-rate-policy band" (which is not disclosed). The stance in 2009 was aimed at minimising the appreciation of the Singapore dollar or SGD[2].
Guarantees on bank loans/ deposits	Guarantees on all bank deposits in Singapore through 2010.
Foreign-exchange liquidity support	Secured a precautionary USD30 billion currency-swap agreement with the United States Federal Reserve.
Corporate/SME liquidity support	Special Risk-Sharing Initiative (part of the Resilience Package) to stimulate bank lending. To run until January 2011.
Job protection	Jobs Credit Scheme (cash grants to employers to subsidise wage bills for local workers); part of the Resilience Package. Expired in June 2010.

Sources: IMF Article IV Consultation Report on Singapore (August 2009); MAS; Singapore Ministry of Finance.

Notes:

(1) FY 2009 refers to the period between 1 April 2009 and 31 March 2010.

(2) In April 2010, the MAS announced that it was re-calibrating the exchange-rate-policy band to the prevailing nominal effective exchange rate of the SGD. At the same time, it would shift the policy band from that of a "zero percent appreciation" (applied since October 2008) to one of "modest and gradual appreciation". The width of the policy band was maintained.

Outlook

Projects 13%-15% GDP growth for 2010

In light of the more upbeat global outlook and Singapore's robust performance in the first 6 months of 2010, the authorities have projected a 13%-15% GDP growth for the full year. Before this, the outlook had already been revised upwards twice this year[2]. Based on the authorities' review of the economy in April 2010, the trade-related sectors – i.e. manufacturing, wholesale trade and transport and storage – are expected to lead the charge. Strong domestic demand in the Asian region could also have positive spillover effects on Singapore's tourism and shipping sectors. On the other hand, overcapacity and still-weak demand factors hold less positive implications for the chemicals, marine and offshore engineering, and domestic construction sectors. Meanwhile, the MAS has realigned its monetary policy to accommodate a modest and gradual appreciation of the Singaporean dollar, in a bid to balance the expected increase in inflationary pressures (as global commodity prices and domestic costs climb up amid increasing economic activity).

Table 3: Selected macroeconomic indicators

	2005-2007	2008	2009	2010
Real GDP growth	7% - 9%	1.8%	-1.3%	13% - 15% (IMF: 5.7%)
CPI inflation	1% - 2%	6.6%	0.6%	2.5% - 3.5%
Unemployment rate	2% - 3%	2.2%	3.0%	IMF: 2.8%

Source: MAS, IMF World Economic Outlook database (April 2010).

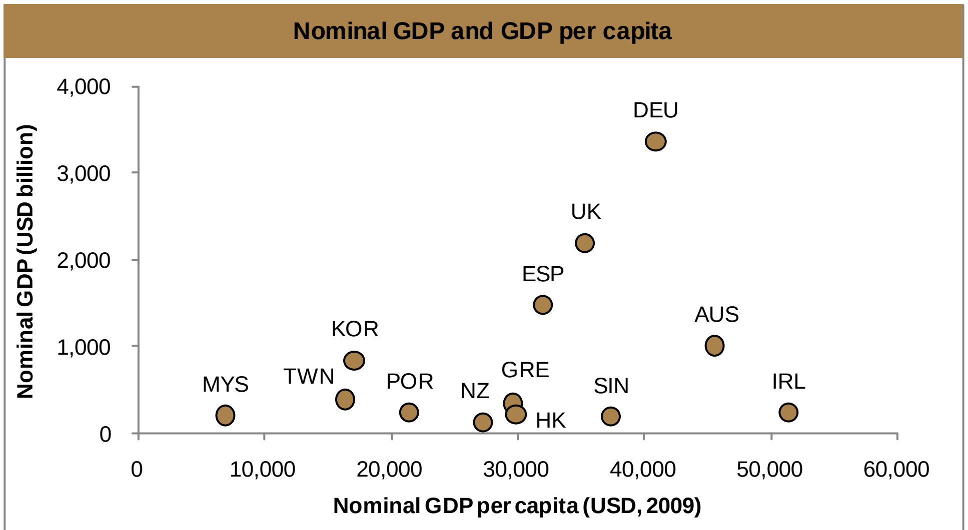
Size, Structure and Stability

Small but very wealthy economy

Singapore has the smallest GDP (USD177 billion as at end-2009) among the 4 NICS. It is, in fact, one of the most diminutive economies in Asia. The country's apparent lack of size is, however, amply compensated by its economic competitiveness; Singapore is perceived as the easiest country to conduct business in, is the third-most competitive global economy and also top marks on quality of governance. The island state is also among the most prosperous nations in Asia, if not the world, based on its GDP per capita of about USD37,000 – which is comparable to economic heavyweights such as Germany and the UK.

[2] Once in February (from 3.0%-5.0% projected in November 2009 to 4.5%-6.5%) and again in April 2010 (to 7.0%-9.0%). The most recent revision is the third this year.

Chart 2: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook database (April 2010)

Abbreviations used:

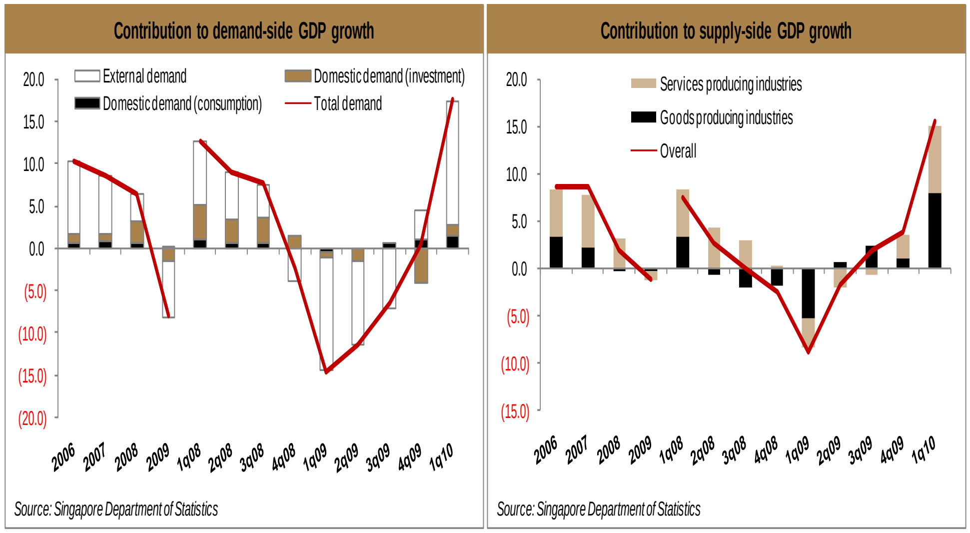
AUS = Australia	*DEU = Germany*	*GRE = Greece*	*HK = Hong Kong*
IRL = Ireland	*KOR = South Korea*	*MYS = Malaysia*	*NZ = New Zealand*
POR = Portugal	*SIN = Singapore*	*ESP = Spain*	*TWN = Taiwan*
UK = United Kingdom			

GDP growth driven by external demand and investments

In light of its small population, Singapore's economy has been modelled to thrive on external demand and investments. On the supply side, the manufacturing sector typically accounts for the bulk of its real GDP growth. However, services-producing industries (led by the wholesale and retail trade, financial and business services sectors) have become increasingly prominent contributors to its overall growth since 2006 (Chart 3). The financial and business services sectors account for a respective 11.7% and 11.5% of Singapore's real GDP[3], and maintained positive growth through 2008 and 2009. In terms of size, the manufacturing sector remains the single largest component of supply-side GDP (25.4%); wholesale and retail trade took up 16.0%.

[3] Average for 2004 to 2008. All other "% of total GDP" statistics quoted in this paragraph are also calculated on the same basis.

Chart 3: GDP growth drivers



Note:

(1) Goods-producing industries comprise the manufacturing, construction, utilities and agriculture, mining and quarrying sectors.

Some volatility inevitable as external factors provide thrust for growth

The country's external-oriented economic structure invariably leaves its economy vulnerable to the vagaries of global demand cycles, as experienced during the commodities crash in 1985, the IT meltdown in 2001, the Asian financial crisis in 1997/98 and the recent global slump in 2009. This volatility is perhaps amplified by Singapore's relatively smal economy (Chart 4). On the brighter side, the Singaporean economy had rebounded after each of its previous setbacks, which we regard as a positive reflection of its resilience and flexibility.

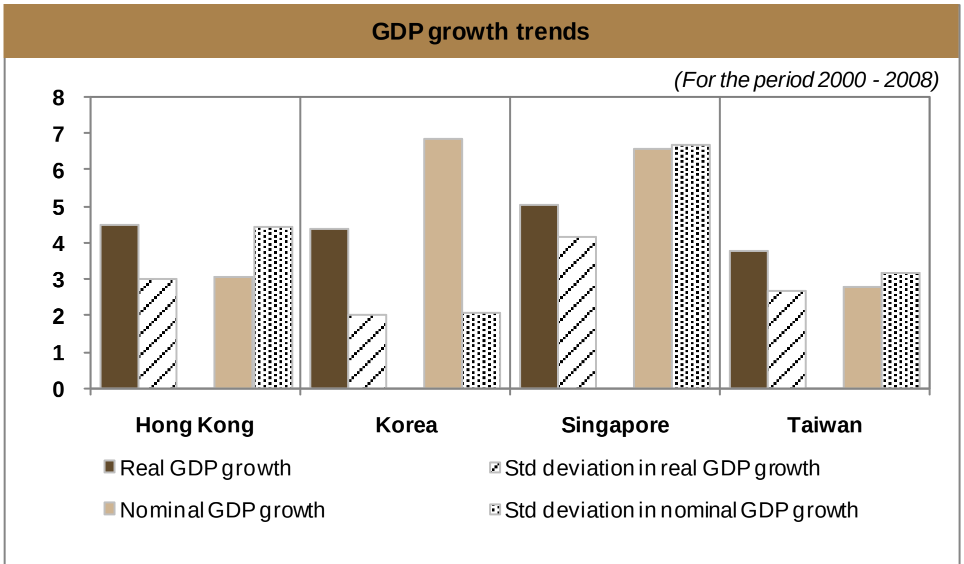
… but cushioned by several strengths

This hardiness is supported by a variety of factors, including the government's fiscal prudence, political stability, investment-friendly policies, and the availability of world-class infrastructure and skilled labour. These are manifested through international investors' high regard for Singapore. Apart from the country's strong standing on several global benchmarks[4], UNCTAD[5] data on foreign direct investments also reiterate Singapore's position as a choice destination for foreign investments (Chart 5). The island republic's balance-of-payment data indicate that inflows of foreign capital remained positive through 2008 and 2009 (i.e. even amid the global financial turmoil).

[4] These are shown in Table 4, on page 11.
[5] United Nations Conference on Trade and Development.

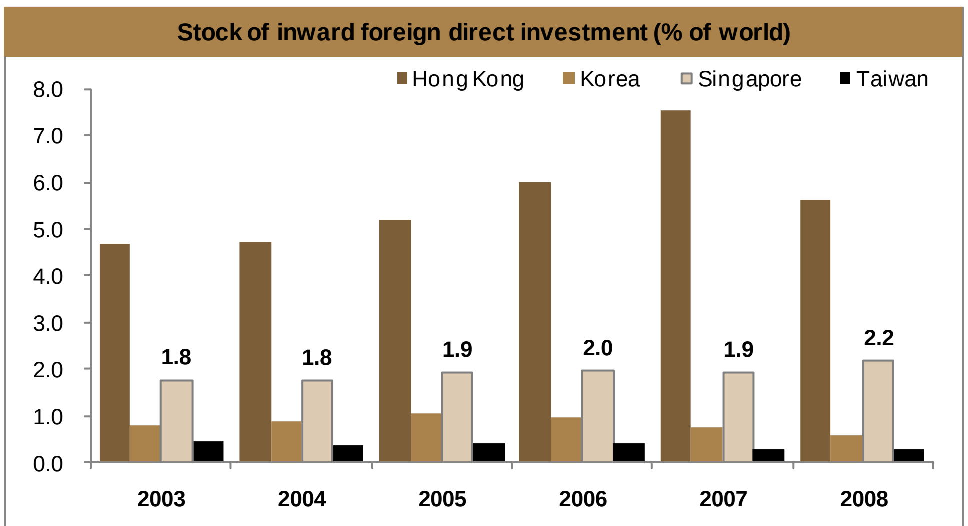
Chart 4: GDP growth trends among the NICS

(GDP growth measured in % change; standard ("std") deviation has no units)



Source: IMF World Economic Outlook database (April 2010), RAM Ratings calculations

Chart 5: Foreign direct investments



Source: UNCTAD

Government Finances

- The Singaporean government has a history of prudent fiscal performance, and is in a net-cash position (i.e. government deposits and investments are larger than government debt).
- The budget for fiscal (or FY) 2010 (i.e. 1 April 2010 to 31 March 2011) was announced in February 2010. Focus has shifted from crisis containment to longer-term investment. The Singaporean government expects to run a budget deficit in fiscal 2010.

Deficit in 2009 narrower than originally anticipated

The Singaporean government's primary fiscal balance[6] for FY 2009 fell into the red. The SGD2.4 billion shortfall was, however, narrower than the originally budgeted SGD10.2 billion deficit. Meanwhile, the authorities expect to register another fiscal deficit for the fiscal year ending 31 March 2011. Nonetheless, the budgeted deficit of SGD3.0 billion (including net investment income) is relatively small (about 1% of its 2009 GDP).

Substantial savings reflect prudence and constitutional safeguard

The Singaporean government is estimated to be in a net-asset position as at end-2009 (i.e. government deposits and investments exceed government debt), equivalent to about 67% of its GDP[7]. This reflects both consistent fiscal surpluses as well as constitutional safeguards vis-à-vis reserves earned over the previous terms of government[8]. We believe that the government's strong balance sheet plays an important role in maintaining investor/external confidence, and provides the Singaporean government with the financial flexibility, or fiscal space, to respond in times of crisis.

[6] As defined by the authorities, i.e. operating revenue less operating and development expenditure.

[7] Including an estimated USD248 billion (source: SWF Institute) of assets (or about SGD350 billion) managed by the Government of Singapore Investment Corporation (or GIC).

[8] The Singaporean constitution requires the government to protect at least 50% of the net investment income earned from past reserves (i.e. reserves not accumulated during the present government's term of office). This protected amount is safeguarded together with the accumulated reserves earned over the previous terms of government, and can only be used with the approval of the President. In January 2009, this was revised slightly to allow the government to spend up to 50% of the "expected long-term real returns" on reserves invested by Singapore's GIC and the MAS; the existing framework still applies to the remaining reserves.

External Position

- Singapore is a net external creditor.
- Current-account balance is still positive.

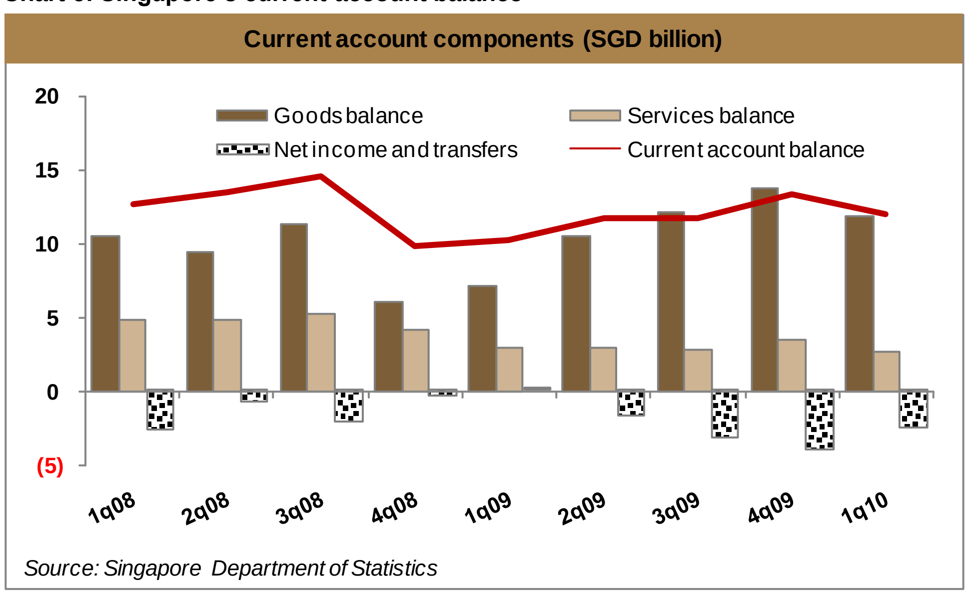
Singapore - net external creditor

Singapore's gross external liabilities (e.g. direct investments, portfolio investments, currency deposits by non-nationals) stood at SGD1.2 trillion as at end-2009. While this seems large – about 6 times its GDP – the country is actually a net external creditor. As at end-2009, Singapore enjoyed a net-asset position to the tune of SGD614.9 billion (about 2 times of its GDP). This includes SGD264 billion of official foreign reserves, sufficient to cover 4 to 6 months of current-account payments or 6 to 9 months of merchandise imports. With its current account remaining in surplus and no overwhelming pressure from the repatriation of foreign capital, the country's foreign reserves should remain sizeable in the foreseeable future.

Current-account balance still positive

Singapore's current-account balance, driven by trade flows, was comparatively weaker in 2008 and 2009 - in line with the anaemic external demand. A corresponding drop in imports as well as lower net income and transfer payments, however, had helped keep the balance in positive territory. Historical data also show that Singapore has been registering current-account surpluses since 1980.

Chart 6: Singapore's current-account balance



Political Stability

- Dominant party forms stable government.
- Very strong standing in benchmarks vis-à-vis quality of governance, economic competitiveness and ease of doing business.

Institutional Environment

Singapore's ranking in 3 international benchmarks is perceived as a broad gauge of the strength of the country's institutional environment. The island republic's standing in these indices suggest that Singapore is regarded as one of the most successful and well-run – if not the most well-run – nations in the world.

Table 4: Selected global benchmarks

	Singapore	New Zealand	Australia	Korea	Malaysia
World Governance Indicators (percentile rank 0 to 100; higher is better)					
Voice & accountability	35	98	94	65	32
Political stability, no violence	96	89	85	60	50
Government effectiveness	100	95	97	86	84
Regulatory quality	100	97	98	73	60
Rule of law	94	97	95	74	65
Control of corruption	100	98	96	70	63
Ease of Doing Business Index 2010					
Rank (out of 183 countries)	1	2	9	19	23
Global Competitiveness Index 2009/10					
Rank (out of 133 countries)	3	20	15	19	24

Source: World Bank, World Economic Forum.

Government Stability

We view Singapore's political stability as a major strength for the country; the People's Action Party has been the ruling government there since 1959. To date, the country has had only 3 Prime Ministers (including incumbent Lee Hsien Loong). To some extent, stability and continuity influence a government's effectiveness and ability to implement long-term policies. In this regard, we believe that political stability has been used to good effect in Singapore. The island republic's economic prowess is, in our opinion, a clear testament of the government's acumen. While the government has at times been labelled authoritarian, it also has – very importantly – a sound reputation as a stable and efficient world-class administration.

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