



Summary

Singapore has very healthy public finances, strong net-creditor position, solid economic fundamentals, and a stable political environment. Having said that, the large size of the country's banking sector combined with a huge dependence on global demand makes Singapore's economy particularly vulnerable to external shocks. As such, any renewed financial sector stress and/or slowdown in the pace of global recovery can pose major challenges for the authorities.

Things to watch:

Global financial sector stress

The pace of recovery in world trade

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| Singapore | | | |
|-------------------------------------|---|---|--------------------------|
| National facts | | Social and governance indicators | |
| Type of government | Parliamentary Republic | Human Development Index (rank) | rank / total 27 / 169 |
| Capital | Singapore | Ease of doing business (rank) | 1 / 183 |
| Surface area (thousand sq km) | 0.7 | Economic freedom index (rank) | 2 / 179 |
| Population (millions) | 5.0 | Corruption perceptions index (rank) | 1 / 178 |
| Main languages | Mandarin (35%) English (23%) | Press freedom index (rank) | 136 / 178 |
| Main religions | Buddhist (42.5%) Muslim (14.9%) Taoist (8.5%) | Gini index (income distribution) | 42.5 |
| Head of State (president) | S.R. Nathan | Population below \$1.25 per day (PPP) | N/A |
| Head of Government (prime-minister) | Lee Hsien Loong | Foreign trade | |
| Monetary unit | Dollar (SGD) | 2009 | |
| Economy | | 2009 | |
| Economic size | | Main export partners (%) | |
| | bn USD | Main import partners (%) | |
| | | | |
| Nominal GDP | 227 | Hong Kong | 12 |
| Nominal GDP at PPP | 228 | Malaysia | 12 |
| Export value of goods and services | 478 | Malaysia | 11 |
| IMF quatum (in mln SDR) | 863 | China | 10 |
| Economic structure | | US | 6 |
| | 2010 | Main export products (%) | |
| | | | |
| Real GDP growth | 14.8 | Main import products (%) | |
| Agriculture (% of GDP) | 0 | | |
| Industry (% of GDP) | 27 | | |
| Services (% of GDP) | 66 | | |
| Standards of living | | Openness of the economy | |
| | USD | | |
| | | | |
| Nominal GDP per head | 44751 | Export value of G&S (% of GDP) | 200 |
| Nominal GDP per head at PPP | 44869 | Import value of G&S (% of GDP) | 179 |
| Real GDP per head | 33583 | Inward FDI (% of GDP) | 9.2 |

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economy

The economy's massive exposure to external shocks (trade is about four times GDP) meant a recession in 2009 was unavoidable against the backdrop of the sharp drop in world trade (GDP contracted by 1.3% in 2009). Activity started to shrink in the 08Q2 and at its low mark, GDP was 9% lower than pre-crisis. This reflected the economy's extraordinary openness and specialization in cyclically-sensitive goods and services. Yet, the recovery has been as swift as the contraction (GDP grew by a whopping 15% in 2010). The swift revival in global trade and more settled financial markets propelled Singapore's export-oriented activities with knock-on effects on private domestic demand. On the domestic front, the authorities' response to the worsening conjuncture was forceful and comprehensive—a large fiscal stimulus, decisive monetary easing, and an array of measures to ensure financial stability and market functionality. The turning of the inventory cycle also gave a boost to manufacturing.

The country's primary short-term economic risk at present is its vulnerability to any relapse in global growth—not our base-case scenario at this juncture. Given the small size of its domestic market, the authorities do not have enough room to shift their focus to more domestic-oriented growth policies should global demand conditions deteriorate. To this end, Singapore's economic performance may disappoint if the upcoming fiscal and monetary tightening in the advanced countries lead to a slowdown in Asia's economic growth. Adverse spillovers through regional linkages could also arise from a large correction in China's property market—though this entails a tail risk. Of course, the country's strong fiscal position, which is supported by a combination of

budget surpluses (around 1.5% in 2011 according to the IMF) and sizeable sovereign wealth funds will enable the authorities to better deal with exogenous shocks than in most other advanced economies.

Banking Sector

Singapore's financial sector remains in relatively good shape. Systemic risks are mitigated by several considerations: (i) the majority of mortgages have loan-to-value ratios (LTV) below the regulatory ceiling; (ii) mortgage providers have been tightening for some time the terms of their loans; and (iii) low unemployment together with strong household balance sheets suggests few home-owner delinquencies in the pipeline. What's more, regulatory capital was about 17% of risk-weighted assets in mid-2010 (the Tier 1 ratio was 14%), and the liquid asset ratio was about 18%. All these indicators imply ample cushions over statutory requirements. Lastly, foreign banks (which account for over half of banking assets) are subject to strict licensing procedures. Against this backdrop, the downward risks associated with any moderate property price corrections would be manageable, although property-related loans exceed 50% of total system-wide loans. The government has taken a number of measures since September 2009 to mitigate speculation in the property market, such as increasing land supply, removing an interest absorption scheme and banning interest-only housing loans. Furthermore, a stamp duty has been required on selling properties within one year that have been acquired since 20 February 2010 and regulators lowered the LTV of housing loans to 80% from 90% since February 2010.

That said, the size of the banking system (total assets equivalent to 242% of GDP) and completely free movement of capital remains a risk amid fragilities in the global financial markets. A return of banking crisis in the advanced economies (e.g. due to the turmoil in the eurozone) might put downward pressure on the country's rating.

| Singapore | | | | | | | |
|---|--------|---------|---------|---------|--------|--------|--------|
| Selection of economic indicators | 2006 | 2007 | 2008 | 2009 | 2010 | 2011e | 2012f |
| <i>Key country risk indicators</i> | | | | | | | |
| GDP (% real change pa) | 8.6 | 8.5 | 1.8 | -1.3 | 14.8 | 4.1 | 5.0 |
| Consumer prices (average % change pa) | 1.0 | 2.1 | 6.6 | 0.6 | 2.8 | 3.2 | 2.5 |
| Current account balance (% of GDP) | 24.2 | 26.6 | 18.6 | 17.9 | 19.3 | 17.1 | 16.4 |
| <i>Economic growth</i> | | | | | | | |
| GDP (% real change pa) | 8.6 | 8.5 | 1.8 | -1.3 | 14.8 | 4.1 | 5.0 |
| Gross fixed investment (% real change pa) | 14.6 | 19.9 | 13.6 | -3.3 | 5.6 | 6.8 | 7.0 |
| Private consumption (real % change pa) | 3.1 | 6.5 | 2.7 | 0.4 | 5.8 | 4.1 | 4.4 |
| Government consumption (% real change pa) | 7.3 | 3.0 | 8.4 | 8.2 | 8.2 | 5.2 | 4.1 |
| Exports of G&S (% real change pa) | 11.2 | 8.9 | 4.1 | -9.0 | 18.8 | 7.5 | 9.0 |
| Imports of G&S (% real change pa) | 11.2 | 7.8 | 9.2 | -11.0 | 17.4 | 7.4 | 9.9 |
| <i>Economic policy</i> | | | | | | | |
| Budget balance (% of GDP) | 0.5 | 3.1 | 1.4 | -1.0 | -0.4 | -0.2 | 0.0 |
| Public debt (% of GDP) | 90 | 88 | 93 | 110 | 99 | 94 | 91 |
| Money market interest rate (%) | 3.4 | 2.4 | 1.0 | 0.7 | 0.4 | 0.7 | 1.5 |
| M2 growth (% change pa) | 19 | 13 | 12 | 11 | 9 | 12 | 14 |
| Consumer prices (average % change pa) | 1.0 | 2.1 | 6.6 | 0.6 | 2.8 | 3.2 | 2.5 |
| Exchange rate LCU to USD (average) | 1.6 | 1.5 | 1.4 | 1.5 | 1.4 | 1.3 | 1.3 |
| Recorded unemployment (%) | 2.7 | 2.1 | 2.3 | 3.0 | 2.2 | 2.0 | 2.0 |
| <i>Balance of payments (mln USD)</i> | | | | | | | |
| Current account balance | 35126 | 47084 | 36011 | 32628 | 43768 | 44000 | 45280 |
| Trade balance | 42591 | 45963 | 26615 | 30231 | 44956 | 43000 | 46400 |
| Export value of goods | 274900 | 302822 | 342776 | 273411 | 365112 | 413600 | 457700 |
| Import value of goods | 232309 | 256859 | 316161 | 243180 | 320156 | 370600 | 411300 |
| Services balance | 1207 | 10142 | 13604 | 8495 | 9088 | 12810 | 11380 |
| Income balance | -7003 | -6826 | -1396 | -3062 | -6601 | -7790 | -8300 |
| Transfer balance | -1670 | -2195 | -2812 | -3038 | -3675 | -4020 | -4190 |
| Net direct investment flows | 10245 | 8133 | 19390 | 10830 | 9415 | 13780 | 16340 |
| Net portfolio investment flows | -505 | -17880 | -40281 | -30160 | -19160 | -14160 | -14660 |
| Net debt flows | 705 | 602 | -1174 | -5135 | 1620 | 1120 | 1530 |
| Other capital flows (negative is flight) | -25483 | -11242 | -2711 | 5447 | 2096 | -21730 | -28620 |
| Change in international reserves | 20088 | 26697 | 11236 | 13610 | 37740 | 23010 | 19880 |
| <i>External position (mln USD)</i> | | | | | | | |
| Total foreign debt | 24358 | 25593 | 25518 | 20298 | 21815 | 22790 | 24100 |
| Short-term debt | 9278 | 9748 | 9720 | 6800 | 8400 | 9250 | 9450 |
| Total debt service due, incl. short-term debt | 13616 | 14527 | 15145 | 14767 | 11388 | 12850 | 13820 |
| Total foreign exchange reserves | 135814 | 162517 | 173649 | 186005 | 222690 | 245400 | 265040 |
| International investment position | 339113 | 359171 | 339902 | 438119 | N/A | N/A | N/A |
| Total assets | 959525 | 1203070 | 1132420 | 1286330 | N/A | N/A | N/A |
| Total liabilities | 620412 | 843899 | 792518 | 848211 | N/A | N/A | N/A |
| <i>Key ratios for balance of payments, external solvency and external liquidity</i> | | | | | | | |
| Trade balance (% of GDP) | 29.4 | 26.0 | 13.8 | 16.6 | 19.8 | 16.8 | 16.8 |
| Current account balance (% of GDP) | 24.2 | 26.6 | 18.6 | 17.9 | 19.3 | 17.1 | 16.4 |
| Inward FDI (% of GDP) | 20.0 | 20.2 | 5.6 | 9.2 | 6.3 | 7.5 | 8.1 |
| Foreign debt (% of GDP) | 17 | 14 | 13 | 11 | 10 | 9 | 9 |
| Foreign debt (% of XGSIT) | 6 | 6 | 5 | 5 | 4 | 4 | 4 |
| International investment position (% of GDP) | 233.8 | 203.2 | 175.8 | 240.4 | N/A | N/A | N/A |
| Debt service ratio (% of XGSIT) | 4 | 3 | 3 | 4 | 2 | 2 | 2 |
| Interest service ratio incl. arrears (% of XGSIT) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| FX-reserves import cover (months) | 5.5 | 5.9 | 5.2 | 6.9 | 6.3 | 6.0 | 5.9 |
| FX-reserves debt service cover (%) | 997 | 1119 | 1147 | 1260 | 1955 | 1910 | 1918 |
| Liquidity ratio | 175 | 179 | 173 | 195 | 190 | 183 | 180 |

Source: EIU

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