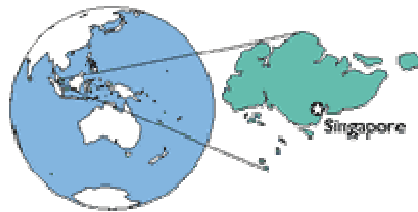


COUNTRY REVIEW

Singapore



1 June 2010

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EULER HERMES COUNTRY RISK GRADE: AA

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

Strengths

- Stable political system and effective policymaking
- High income country and advanced economy, that serves as a hub for trade and financial services in East and South East Asia
- Good track record of sound and flexible economic policies
- Strong external position with a long history of current account surpluses, ample FX reserves, and low external debt levels
- Very strong business environment
- Solid banking sector

Weaknesses

- Weak regional stability
- Very high export dependency
- Economic growth volatility
- Rising labour costs, causing some Singaporean companies to shift their operations to neighbouring countries

Country Risk Assessment

Ratings	Singapore		Median Grade A	Hong Kong	Peers	
	Latest	Previous			Malaysia	Taiwan
Systemic Political Risk:	P1	P1	P2+	P2+	P2+	P2+
Systemic Economic Risk:	E1	E2	E2	E2	E2	E2
ME rating:	ME1	ME2	ME2	ME2	ME2	ME2
<i>Structure</i>	2.6	3.3	3.3	3.3	2.3	4.0
<i>Policy</i>	1.7	3.8	2.5	1.9	4.3	1.9
<i>Solvency</i>	1.3	1.3	1.3	1.0	1.3	1.0
<i>External Liquidity</i>	1.3	2.3	2.8	4.2	2.8	2.8
SBE rating:	SBE1	SBE1	SBE2	SBE1	SBE2	SBE2
COUNTRY GRADE:	AA*	A		A	A	A

Nomenclature:

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

* recommended Grade for GCRC 23 June 2010

ECONOMIC STRUCTURE

Country Profile	
Capital city:	Singapore
Population:	4.62 mn (2008)
GDP:	USD 188269 mn (2008)
Currency:	Singapore dollar (SGD)
Form of state:	Parliamentary democracy
Head of government:	Prime Minister Lee Hsien Loong (since August 2004)
Next elections:	Legislative: 2011 / Presidential: 2011

Major Industries (% of GDP at market prices, 2009)	Global Assumptions	2009	2010	
Manufacturing	18.2%	Real GDP grth (% yr/yr) *	-3.9	0.9
Wholesale & retail trade	16.8%	Inflation (% av) *	-0.1	1.3
Business services	14.3%	Dated Brent (USD/b)	61	80
Financial services	13.5%	* Major economies		
Transport, information & commun.	12.3%			

Main Domestic Exports (% of total, 2009)	Main Imports (% of total, 2009)		
Mineral fuels	29.3%	Electronics	28.1%
Electronics	25.9%	Mineral fuels	25.0%
Chemicals	18.4%	Machinery & transport equipment	19.8%
Machinery & transport equipment	12.1%	Manufactured articles & goods	14.3%
Manufactured articles & goods	10.3%	Chemicals	6.0%
Lead Export Markets (% of total exports, 2009)	Lead Import Markets (% of total imports, 2009)		
ASEAN	30.3%	ASEAN	24.0%
Malaysia	11.5%	Malaysia	11.6%
Indonesia	9.7%	EU	13.7%
Hong Kong	11.6%	US	11.6%
China	9.7%	China	10.5%
EU	9.5%	Japan	7.6%

Basic indicators

Selected economic indicators	2006	2007	2008	2009e	2010f
Nominal GDP (USD mn)	140,547	171,564	188,269	177,133	204,719
Population (mn)	4.36	4.49	4.62	4.70	4.80
GDP per capita (USD)	32,236	38,210	40,751	37,688	42,650
Real GDP growth (% yr/yr)	8.4	7.8	1.1	-1.3	7.0
Inflation (% eop)	0.8	3.7	5.5	-0.5	3.8
Fiscal balance (% of GDP) *	0.0	3.0	0.1	-2.5	-1.0
Current account balance (% of GDP)	24.9	27.6	19.2	19.1	15.0
External debt/GDP (%)	17.4	14.9	13.5	11.3	9.7
External debt/Exports of goods & services (%)	7.2	6.7	6.0	5.6	4.5
Debt-service ratio (%)	1.2	1.2	1.1	1.3	1.0
Foreign exchange reserves (USD mn)	135,814	162,517	173,649	186,005	205,000
Import cover (months)	5.5	5.9	5.3	6.9	6.2
Exchange rate, SGD:USD (av)	1.59	1.51	1.41	1.45	1.39
Exchange rate, SGD:EUR (av)	2.00	2.06	2.08	2.02	1.73
e: CRU estimate; f: CRU central forecast; * fiscal year basis (from April to March)					

Sources: Government Authorities of Singapore, ADB, IMF, World Bank, Euler Hermes Economic Studies

Political Stability

Singapore has been governed by the People's Action Party (PAP) since gaining independence from Malaysia in 1965. The PAP's dominance of the political system reflects the lack of any serious political opposition—which partly reflects the limited democratic framework but also voter satisfaction with the government's management of the economy. Although the most recent legislative election in May 2006 represented the strongest challenge by the opposition since 1988, with candidates contesting 47 out of 84 seats in parliament (up from only 29 in 2001), the PAP again won comfortably, taking all but two seats as it had in the previous election.

Economic Stability

Singapore is a high income country, with estimated per capita GDP of USD37,000 in 2009. The export ratio of about 200% reflects the country's important position as a hub for trade and financial services in East and South East Asia. Two sectors—mineral fuels and electronics—each accounted for more than 25% of imports and domestic exports (excludes re-exports) in 2009. The extreme dependence on external trade and on these two sectors make the economy highly vulnerable to external shocks such as the sharp fall in oil prices in mid-2008 or the global economic downturn in 2008-2009.

Largely as a result of the fact that Singapore has one of the most open economies in the world, the severe global economic crisis affected the country markedly. Thanks to a strong Q1, real GDP still grew by 1.1% in 2008, even though the economy shifted into recession in Q2 as qtr/qtr growth turned negative and remained so in the following three quarters. In 2009, real GDP contracted by 1.3%, but quarterly data indicated a swift recovery: -8.9% yr/yr in Q1, -1.7% in Q2, +1.8% in Q3 and +3.8% in Q4.

The recovery gained further momentum in Q1 2010. Real GDP grew rapidly by 15.5% yr/yr and by 38.6% on a qtr/qtr, seasonally-adjusted annualised basis (-1% in Q4 2009). Construction (13.7% yr/yr) and services (10.9%) grew robustly but the impressive performance was led by the export-oriented manufacturing industry which soared 32.9% yr/yr and 157.6% qtr/qtr—driven by a sound recovery of electronics production and a surge in the biomedical output. However, base effects also played a role as manufacturing shrank 24% yr/yr in Q1 2009 as well as 27% qtr/qtr in Q4 2009. Since base effects will wane in the course of 2010 and manufacturing output is likely to remain volatile, largely reflecting the volatile biomedical cluster, economic growth will ease back during the rest of the year. However, the upswing should not come under serious threat and we expect the economy to expand by about 7% in calendar 2010. Growth in 2011 is forecast at 4-5%.

Singapore has managed to overcome cyclical shocks quickly in the past 13 years thanks to a sound and flexible economic policy mix that has maintained the economy's competitiveness. Supply-side economic policy helped the country to survive the Asian crisis 1997/98 with barely a scratch and expansionary fiscal policy supported a quick recovery of the economy after it was hit by SARS in 2003. Moreover, Singapore had a relatively strong position going into the still ongoing global crisis, allowing sufficient fiscal expansion and monetary policy relaxation such that the economy is benefiting with an early recovery.

Consumer price inflation accelerated to 7.5% yr/yr in Q2 2008, owing to then high oil and food prices and in line with global inflation. Thereafter, it declined steadily and entered deflationary territory in the second half of 2009. Inflation shifted back into positive in early 2010 and accelerated to 3.2% yr/yr in April. Inflationary pressures are expected to persist in 2010, owing to rising global commodity prices, wage growth as the labour market tightens and rising property prices and rentals. Average headline inflation is forecast at 3-4%.

The Monetary Authority of Singapore (MAS) targets an undisclosed trade-weighted trading band for the Singapore dollar (SGD), i.e. the exchange rate system is flexible but occasionally managed. From mid-2003 to mid-2008, the SGD had gradually appreciated against the USD. In the wake of the domestic recession, the SGD then depreciated against the USD by about 12% from mid-2008 to end-March 2009. In the following 14 months, the local currency has again appreciated by around 8%. In April 2010, the MAS tightened monetary policy. First, it re-centred the trading band at the prevailing level, which is equivalent to a revaluation of about 0.6% from the previous centre. Second, it shifted from a policy of a zero percent appreciation of the band to one of "modest and gradual appreciation".

Singapore's fiscal position has remained solid. The government implemented a large stimulatory budget in order to mitigate the impact of the global crisis which resulted in an estimated fiscal deficit of 2-3% of GDP in FY2009 (April 2009 to March 2010). Public-sector debt has maintained a rather high level of about 100% of GDP and therefore should be monitored closely. However these figures are currently not a cause of much concern. Public-sector debt has been entirely domestic debt since 1995

and the government has a strong external position such that it enjoys an overall net creditor position. Moreover, it is able to tap reserves held by the MAS and the Government of Singapore Investment Corporation (a sovereign wealth fund) if needed.

Sustained strong competitiveness of the economy has been reflected in continuing high inflows of foreign direct investment as well as in huge current account surpluses which Singapore has run for over 20 years (even during the latest crisis). The external surpluses accounted for 19% of GDP in both 2008 and 2009 and should remain in double digits in 2010-2011. At about USD200bn, current foreign exchange reserves are ample, providing cover for more than six months of expected imports in 2010. Reserves are also estimated to be sufficient to cover six times all external debt payments falling due in 2010.

The external debt position is unproblematic. Total private-sector external debt stood at about USD20bn or 12% of GDP at end-2009; and external debt service will account for an estimated 1% of export earnings in 2009.

Structural Business Environment

The Structural Business Environment is very strong. Singapore ranks sixth out of 210 economies in our assessment overall and is also regularly near the top of surveys of the freest places to do business. In the latest issues of both the Heritage Foundation's *Index of Economic Freedom* (2010) and the Fraser Institute's *Economic Freedom of the World* (2009), the country was again ranked second after Hong Kong. Trade barriers are practically non-existent, and tax rates are low. Foreign and domestic businesses are treated equally. Barriers to capital flows and foreign investment are generally very low, only foreign investment in media, domestic retail banking, and some sectors dominated by state-linked companies remains restricted. The government remains involved in the economy through many state-linked companies (the public sector still holds relatively large shares in listed companies in Singapore). However, while this could dampen corporate growth—notwithstanding the fact that most of these companies operate profitably—it has a positive impact on the risk of insolvency on account of the country's favourable fiscal situation. Regulations are straightforward, transparent and business-friendly. Corruption is negligible. Transparency International's *2009 Corruption Perception Index* assigns Singapore a rating of 9.2 on a scale from 0 (highly corrupt) to 10 (highly clean), giving it rank 3 out of 180 countries. The World Bank's *2009 Governance Research Indicator* survey puts regulatory quality, the rule of law and control of corruption above the average for OECD countries. A sound legal system along with an independent and efficient judiciary provide for very strong protection of property rights. Corporate insolvencies are handled on a legally binding basis. The World Bank's latest *Doing Business* survey (2010) ranks Singapore first and suggests that the country does better than the OECD average in nearly all categories of assessment. For example, investment transactions are more transparent, enforcing contracts takes much shorter, and insolvency procedures take less time and cost less, while recovery rates are much higher (91% vs. 69%).

A systemic crisis in the Singaporean financial-services sector appears unlikely. The standards of financial sector supervision are high. The already solid banking sector has been further improved following liberalisation and consolidation steps taken since 1999, although foreign banks still face significant restrictions, in particular in the retail banking sector. In practice, the domestic retail banking sector has been consolidating since 2001 through a series of mergers. For all the liberalisation, it is clear that the government has no intention of fully relinquishing all control over the financial-services sector. Domestic banks have apparently been less burdened with problematic assets than US and European banks. Nonetheless, the local recession and increase in insolvencies has resulted in an upturn in non-performing loans, albeit from a very low level of about 0.5% in Q1 2008 to a still modest 2% at end-2009.

The usual payment terms in Singapore are 30-60 days. It is reported that 55.9% of importers paid promptly in the year to end-Q3 2009, 34.6% of them paid more than 30 days over terms and 18.1% paid more than 60 days over terms. The average time between the placement of payment by the importer in the local banking system and the receipt of it by the exporter is less than one month. In particular state-linked companies pay usually within the payment terms. Corporate insolvency figures are generally low in Singapore. The number of insolvencies filed peaked in 1999 (370 cases), but declined thereafter to just 106 cases in 2007, before rising again to 132 cases in 2008 and estimated 167 cases in 2009 as a result of the global economic crisis and the domestic downturn.

Charts

