

Economic Research

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MACRO UPDATE: *Republic of Singapore*



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In a nutshell

- The Singapore economy, resilient and globally competitive, is likely to remain so given its credible and effective policies, as well as stable political environment. In 2017, its gross domestic product (GDP) per capita in purchasing power parity (PPP) terms came in at 94,104.70 international dollars, making it one of the world's richest nations. Its upbeat growth performance thus far has been supported by the highly diversified nature of its economy. Over the past five years, the resilient services sector contributed on average about two-thirds of total annual output, while manufacturing accounted for about 18%.
- Singapore's persistent current account (CA) surpluses strengthen the country's fundamentals. In 2018, its CA registered an all-time high surplus balance of SGD86.2 billion (USD63.9 billion), equivalent to 17.7% of GDP. Not surprisingly, its net international investment position (NIIP) stands at a significant 227.5% of GDP. While we foresee CA surpluses easing over the medium term amid increasing spending related to structural reform efforts, Singapore's external position will likely remain exceptionally robust given its substantial buffers.
- The Singapore government operates on a balanced budget over each term of government. As such, it has zero fiscal debt and zero government guarantees. Given prudent fiscal management, the city-state has enjoyed fiscal surpluses in all but five years over the last 20 years. Government spending had averaged 15.3% of GDP while operating revenue averaged 14.7% over that period. As a result, it has built up large fiscal buffers. This was also due in part to the Net Investment Returns Contribution (NIRC) of its sovereign wealth funds.
- Singapore's strong governance and institutions are central to its development success. Over the last decade, the city-state has consistently remained in the top three of the World Economic Forum's Global Competitive Index (GCI). Apart from this, Singapore also ranked well in all the sub-indicators of the World Bank's Worldwide Governance Indicators, as well as in the World Bank's Ease of Doing Business report. Given the country's proven track record of policy-making and implementation capacity, as well as proactive embrace of technological change, MARC expects Singapore's strong governance and institutional framework will continue to support the country's balance sheet.
- Notwithstanding the positive attributes, as a small and highly open economy, Singapore is susceptible to global headwinds. This is reflected by its high GDP growth volatility. Over the nine-year period through to 2018, it came in at 3.9%, way above the median of 0.8% of its AAA-rated peers. It has not been spared the uncertainties triggered by trade tensions between the US and China. Notwithstanding this, the US-Singapore free trade agreement (FTA) should partially shield it from the spillovers of a global trade war. In any case, MARC believes that Singapore is capable of riding through potential external shocks given its significant fiscal and external buffers.
- Over the medium term, the Singapore economy faces issues related to its rapidly ageing population. Its old-age support ratio has fallen to 4.8 in 2018 from 7.6 in 2008. This translates into fewer working age adults supporting each resident aged 65 years and above. As fiscal policy needs to accommodate rising social and security expenditures, there will be implications for fiscal performance. Meanwhile, the rapidly ageing population could potentially slow down Singapore's march towards an innovation-based economy, thereby affecting productivity and economic growth.

An upbeat economic performance

- Singapore's GDP per capita in PPP terms came in at 94,104.70 international dollars in 2017, making it one of the world's richest nations. This is not surprising as its credible and effective policies, together with a stable political environment, have made the city-state globally competitive.
- As a small and highly open economy, Singapore is susceptible to global headwinds. It has not been spared from uncertainties triggered by trade tensions between the US and China. Notwithstanding this, the US-Singapore FTA will likely shield the economy from the spillover effects of a global trade war. Given its significant fiscal and external buffers, MARC believes that Singapore is capable of riding through potential economic shocks.

Table 1: Singapore: selected economic indicators

	2013	2014	2015	2016	2017	2018
Real GDP Growth (%)	5.0	4.1	2.5	2.8	3.9	3.2
CPI inflation (%)	2.4	1.0	-0.5	-0.5	0.6	0.4
Current account balance (% GDP)	15.8	17.9	17.0	17.5	16.0	17.7
Net international investment position (% GDP)	200.9	196.8	217.3	238.5	232.7	227.5
Foreign exchange reserves (USD billion)	273.1	256.9	247.7	246.6	279.9	287.7
Government fiscal balance (% GDP)	1.3	0.1	-1.0	1.4	2.3	0.4
Gross government debt (% GDP)*	102.2	97.6	100.1	105.9	108.0	112.2
Regulatory capital to risk-weighted assets	16.4	15.9	15.9	16.5	17.1	16.8
Regulatory tier-1 capital to risk-weighted assets	13.8	13.6	13.7	14.3	15.4	14.9
Bank system non-performing loans ratio	0.9	0.8	0.9	1.2	1.4	1.3
Household debt (% GDP)	73.3	74.2	71.6	70.7	69.6	67.3
Unemployment rate (%)	1.9	2.0	1.9	2.1	2.2	2.1
WEF Global Competitiveness Index (rank)	2.0	2.0	2.0	2.0	3.0	3.0

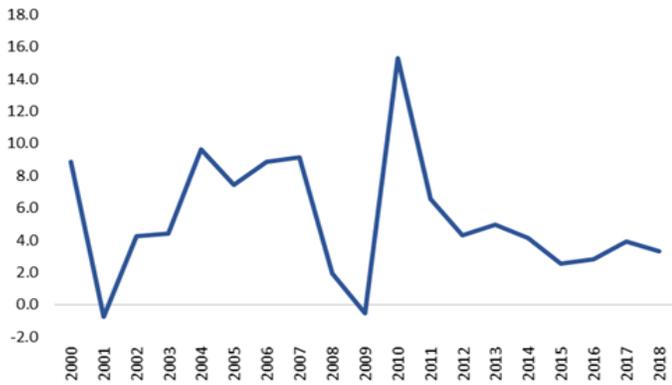
Sources: MoF, Singstat, Singapore FSR, CEIC, MARC Economic Research

Note: * As of financial year-end

Ageing population and structural changes to pose a challenge

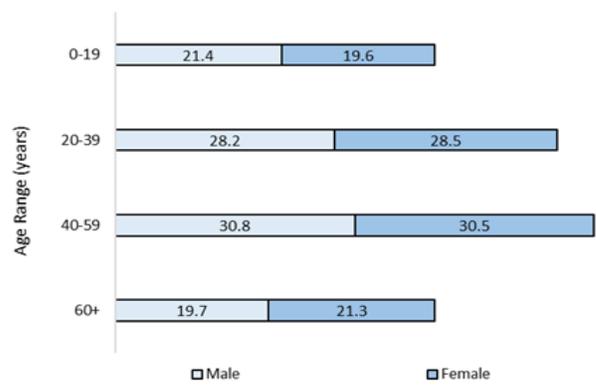
- Singapore's domestic economy faces challenges over the medium term from a rapidly ageing population. This ticking demographic time bomb has implications on Singapore's future fiscal performance. In the recently announced Budget 2019, policy measures were announced to tackle the repercussions of a demographic time bomb.
- MARC expects Singapore's economic fundamentals to remain strong over the medium term as its growth model continues to keep up with the global trend. Based on its track record of strong institutions and excellent economic management, we view the authorities' efforts to move the city-state towards an innovation-based and highly productive economy as positive for long-term development.

Chart 1: Real GDP growth (%)



Sources: CEIC, MARC Economic Research

Chart 2: Total population by age group and sex (% of total, 2018)



Sources: CEIC, MARC Economic Research

Note: Total population refers to residents (citizens and permanent residents) and non-residents

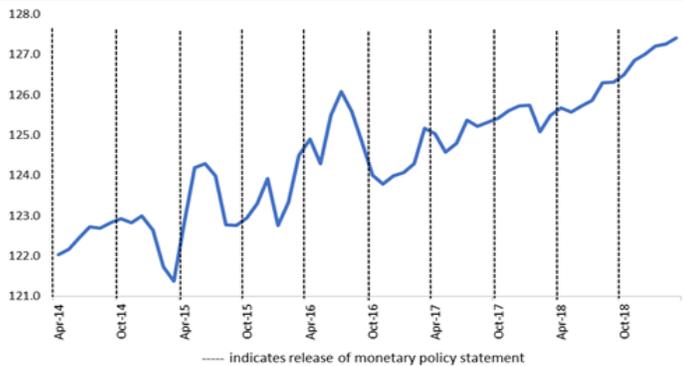
Prudent and credible monetary policy

- The Monetary Authority of Singapore (MAS) tightened the monetary policy in view of higher core inflation. Unlike other central banks that target interest rates, the MAS uses Nominal Effective Exchange Rate as the intermediate target of monetary policy to ensure price stability.
- The central bank has also managed to keep the SGD stable while avoiding a misalignment in its currency value. Global price pressures from major economies could remain somewhat contained. On the domestic front, a robust labour market coupled with a turnaround in employment growth should sustain household spending.

A robust external position

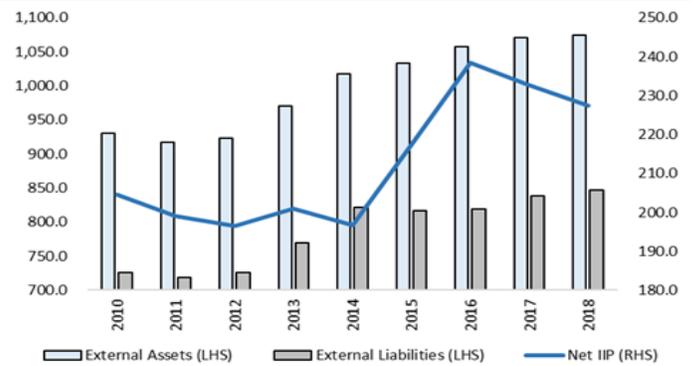
- Singapore's exceptionally robust external position, boosted by persistent CA surpluses, strengthen its fundamentals. Not surprisingly, the city-state is a net international creditor, as reflected in its consistently positive NIIP. In terms of external debt, it has historically been concentrated in the financial sector.
- MARC believes that Singapore's official foreign reserves are sufficient to cover some of its short-term external debt. Singapore also has reserves in the form of NIRC, which comprises net investment returns on net assets invested by GIC Private Limited, the MAS and Temasek as well as net investment income derived from past reserves.

Chart 3: SGD NEER Index



Sources: CEIC, MARC Economic Research

Chart 4: Net IIP, external assets and liabilities (% of GDP)



Sources: CEIC, MARC Economic Research

A sustainable fiscal and debt management

- Singapore has enjoyed fiscal surpluses as much of this was achieved through prudent government spending. Combined with the accumulation in sovereign wealth funds, Singapore has managed to build up large fiscal buffers. In financial year ending March 2019 (FY2018), Singapore maintained an overall budget surplus of 0.4% of GDP, compared with 2.3% of GDP in FY2017. Singapore is expected to register a budget deficit of 0.7% of GDP in FY2019 as government expenditure is projected to exceed revenue.
- The Singapore government does not borrow to finance its budget and has zero government guarantees. However, it issues liquid sovereign papers to develop its domestic capital market, to supply a guaranteed income stream to the pension fund and to provide individual investors with a long-term savings option.

Political stability key to development success

- Singapore's political stability, strong governance and institutions remain key to its development success. The country is highly ranked at number two in the 2018 edition of the World Economic Forum's GCI 4.0. While the set of institutions, policies and factors that have ensured development success continue to play an important role, some fine-tuning may be necessary given the city-state's embrace of a new technology-driven and innovation-based growth model for the future.
- In the 2015 general election, Singapore's People's Action Party (PAP) captured 69.9% of votes cast. This landslide win raised hopes that it could trigger the start of Singapore's move towards a less authoritarian path. The improvement in the percentile ranking of the voice and accountability component of the WGI lends some credence to this expectation.
- However, MARC does not expect any significant changes to take place in the near future. Singaporeans, known for their pragmatic streak, will likely continue to choose candidates based on their ability to implement effective policies.

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