

Country Insight Snapshot

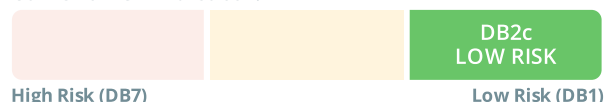
Singapore

March 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: November 2021 (DB2d → DB2c)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

WorldWatch Headline

Singapore's advanced manufacturing sector facing headwinds from China's efforts to develop domestic electronics supply chains, as well as onshoring and localisation programmes in North America and Europe.

Recent Changes

- We downgraded Singapore's market potential rating from DB3a to DB3b in March 2023, over concerns that China's plans for electronics supply chain autarchy will limit market opportunities going forward.
- Leading indicators suggest that the economy is continuing to revive in early 2023, driven by pent-up construction demand, while the revival of tourism expenditure is supporting the domestic retail sector.
- The Korea-Singapore Digital Partnership Agreement entered into effect in January 2023, which will help support the development of common data standards and a digitalisation cluster.

Events to Watch

- The Singaporean government has increased social transfers in the 2023 budget, but the erosion of disposable income for middle-class Singaporeans will weaken demand for domestic hospitality services in 2023.
- Malaysia is considering reviving a proposed USD15bn high-speed rail link between Kuala Lumpur and Singapore that was formally suspended in 2021.
- We expect the MAS to re-centre the mid-point of the exchange-rate policy band at its April meeting to maintain exchange-rate stability against the US dollar.

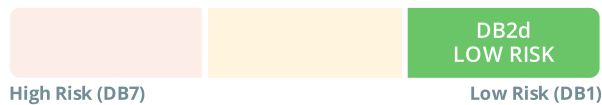
Call to Action

- Note that healthcare spending currently occupies around 18% public expenditure and is expected to come under upward pressure as Singapore's population ages.
- Be aware that the government has announced plans to introduce a 15% minimum corporate tax rate for multinationals from 2025 in line with the proposed introduction of the BEPS 2.0 global minimum effective tax rate.
- Note that the government extended the 100% tax break on investments on automation projects from 1 March 2023 until 1 March 2026 in the 2023 budget.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: September 2021 (DB2c → DB2d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

- The 2023 budget envisages a SGD0.4bn budget deficit (equivalent to 0.1% of GDP) to support households and SMEs through an economic slowdown in 2023.
- Inflationary pressures in the city-state remain acute; headline CPI inflation eased to 6.3% in February, while core inflation was unchanged at 5.5%, the highest reading since November 2008.
- The government has announced plans to introduce a 15% minimum corporate tax rate for multinationals from 2025 in line with the proposed introduction of the BEPS 2.0 global minimum effective tax rate.
- The government extended the 100% tax break on investments on automation projects from 1 March 2023 until 1 March 2026 in the 2023 budget.

Trade Terms

Description	Terms
Minimum Terms	OA
Recommended Terms	SD
Usual Terms	30-60 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Full cover available

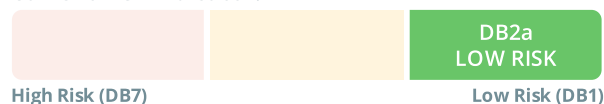
Source: Export Credit Agencies

Call to Action

- Note that banks are well-capitalised, but their regional exposure remains significant.
- Note that the Investment Allowance scheme that offers a tax allowance as a proportion of investments in plant and manufacturing equipment has been extended until end-2028.
- Study the scope of US Department of Commerce, Bureau of Industry and Security (BIS) licensing restrictions and widened definitions of military end-use, if Singaporean and considering trade with Russia and Belarus.
- Be aware that Singapore's financial institutions enjoy improved access to Malaysia's market following the entry into effect of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in Malaysia in November 2022.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: November 2022 (DB2b → DB2a)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

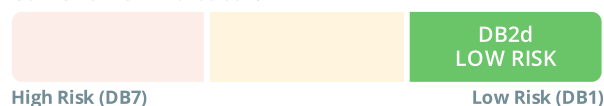
- Malaysia is considering reviving a proposed USD15bn high-speed rail link between Kuala Lumpur and Singapore that was formally suspended in 2021.
- Export-oriented manufacturing sectors face increasing input costs and higher logistics costs.
- The city-state is investing heavily in expanding energy generation and infrastructure, and is assessing offshore floating solar power and domestic ammonia and methanol production for maritime fuel projects.
- Singapore has introduced wide-ranging sanctions against named Russia-owned or linked counterparties, including restrictions on dealings with financial institutions.
- Onshoring and politically inspired localisation pressures in major export markets will restrict Singapore's advanced manufacturing sector's export opportunities over the medium term.

Call to Action

- Be aware that following Malaysia's ratification of the CPTPP in November, Singaporean and Malaysian counterparties will be able to self-declare the origins of products under the agreement's rules of origin (ROO).
- Expect Singapore to explore the possibilities of importing renewable electricity supplies on a commercial basis from neighbouring countries to avoid imposing decarbonisation costs on domestic industries.
- Note that by 2024, the European Commission is planning to extend its emissions trading system to international shipping voyages calling at EU ports.
- Check whether Singaporean counterparties are exposed to US trade sanctions via involvement in sanctioned Chinese supply chains.
- Note the Korea-Singapore Digital Partnership Agreement entered effect on 13 January 2023, which will help support the development of common digital data standards and support an AI-linked cluster to emerge.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: May 2022 (DB2c → DB2d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

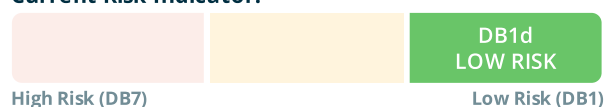
- The introduction of US trade restrictions on semiconductor sales to China in October 2022 will slow Chinese investment in Singaporean supply chains but will not damage wider Chinese-Singapore trade links.
- China is likely to accelerate efforts to develop domestic electronics supply chains to improve resilience to potential future US sanctions, which will reduce Singaporean firms' future opportunities.
- Singapore would be heavily impacted if the US decided to impose wider-reaching financial and trade sanctions on Mainland China, particularly if the EU follows suit.
- The easing of China's zero-Covid policy in late-2022 will lead to a recovery in tourist visits, business travel and associated services expenditure from China, which will support sales in the retail sector over 2023.
- Singapore is expected to record slower growth of 2.0% in 2023 as a revival in the domestic services sector helps offset a contraction in the advanced manufacturing sector.

Call to Action

- Note that Malaysia ratified the CPTPP in late-2022, which has improved Singaporean financial institutions' access to the Malaysian market.
- Expect the hospitality and retail sectors to continue to benefit from a revival in tourist expenditure over the course of 2023.
- Be aware that sanctions on trade and financial activities with Russian counterparties will introduce pressures for trading subsidiaries of Chinese SOEs.
- Note that the conclusion of the merger between local shipyards Sembcorp and Keppel O&M on 1 March 2023 is expected to lead to some capacity reduction in the local market, but throughput volumes are unlikely to decline.
- Note, if part of the Singaporean commodities trading community, the G7 price cap policy on Russian oil entered effect on 5 December 2022.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: November 2021 (DB2a → DB1d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Lowest degree of uncertainty associated with expected returns, such as export payments, and foreign debt and equity servicing.

Risks and Opportunities

- The Singaporean government has extended cash transfers to lower-paid segments of Singaporean society via one-off transfers and welfare payments in the 2023 budget.
- The increase in social transfers is likely to lead to calls for increased healthcare expenditure.
- In October 2022, the Biden administration in the US imposed technology transfer bars on the semiconductor sector, which will restrict Singaporean companies' trade and investment links with Mainland China.
- As an export-oriented entrepot, Singapore closely follows potentially protectionist trade policy developments in important export markets, such as the EU's proposed carbon border adjustment mechanism (CBAM).
- Opposition parties are expected to become credible challengers to Singapore's ruling PAP party after the next election in 2025; this has shifted policy debates inside the parliament rather than within the PAP, which is likely to encourage discussions around housing, social transfers and localisation requirements.

Call to Action

- Expect pressure from younger voters for electoral reform to intensify before the next election; the PAP attracts persistently lower support among younger Singaporeans.
- Prepare for the PAP to experience internal dissent within the party and among business leaders if Singapore seeks to introduce sanctions on trade and investments with Mainland China.
- Pay particular attention to Singaporean regulators' moves regarding restrictions on dealing with Russia-owned/controlled entities.
- Be aware that sophisticated security services, a law-abiding society and generous financial provisions mean that social or security disruption are unlikely to increase in the short term.
- Note that healthcare spending currently occupies around 18% public expenditure and is expected to come under upward pressure as Singapore's population ages.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022e	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	3.6	1.3	-3.9	8.9	3.6	2	2.1	2.9	3	3
Nominal GDP in USDbn	377	377	348	424	453	479	501	535	572	602
Nominal GDP in local currency	508.3bn	514.1bn	480.7bn	569.4bn	625.0bn	675.8bn	706.8bn	743.7bn	783.3bn	824.2bn
GDP per Capita in USD	64,815	64,236	58,951	71,334	75,861	79,685	82,823	87,861	93,341	97,671
Population (year-end, m)	5.8	5.9	5.9	5.9	6	6	6.1	6.1	6.1	6.2
Exchange rate (yr avge, USD-LCU)	1.3	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Current Account in USDbn	59.1	60.9	57.3	76.3	90.3	102.7	104.8	112.8	119.3	123.6
Current Account (% of GDP)	15.7	16.2	16.4	18	19.9	21.4	20.9	21.1	20.9	20.5
FX reserves (year-end, USDbn)	287.5	279.2	362.1	416.1	287.7	308.2	329.2	351.8	375.6	400.3
Import Cover (months)	5.4	5.2	7	6.8	4.6	4.7	4.7	4.6	4.6	4.6
Inflation (annual avge, %)	0.4	0.6	-0.2	2.3	6.1	6.1	2.5	2.3	2.3	2.2
Govt Balance (% GDP)	3.7	3.8	-6.9	-0.2	1.4	1.4	2.5	-1.5	-0.5	2.5

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Singapore	Mainland China	Malaysia	Hong Kong (S.A.R.)	US
Income per Capita (USD)	79,685	13,775	12,970	50,398	78,619
Country Population (m)	6	1,425.7	34.3	7.5	340
Internet users (% of population)	92	70.1	89.6	92.4	90.9

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	1-3 month

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Singapore	Asia Pacific	OECD Average
Restrictions on non-Residents' Accounts	0	0.18	0.06
Restrictions on Payments for Imports	0	1.18	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	1.55	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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