Singapore
CRT-1
August 22, 2019
Region: Asia

Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Singapore has a low level of economic and political risk and very low level of financial system risk. Global trade tensions have weighed on Singapore’s economic outlook, reducing exports in electronics and precision engineering, and growth in 2019 is expected to be under 2%. As a high-income economy, private consumption will primarily drive growth in 2019.

• Inflationary pressures remain weak, with inflation expected at around 1% for 2019.

• AM Best categorizes the majority of countries in Southeast Asia as CRT-3, CRT-4, or CRT-5. Singapore is the only CRT-1 country in the region.

Regional Summary: Southeast Asia

• Southeast Asia includes countries spanning the development continuum, from Singapore with a per capita GDP around USD65000, to Papua New Guinea, with a per capita GDP of approximately USD 2500, according to the latest IMF figures. The region’s geographic spread includes countries located north of Australia, west of New Guinea, east of India, and south of China.

• Growth in the region has been relatively robust, supported by strong domestic demand, government-led infrastructure spending, and increased foreign direct investment. However, growth is expected to moderate with downside risks including the negative impact of geopolitical tensions on trade, declining export-driven demand, energy price volatility, and potential exchange rate volatility.

• Three of region’s countries—Thailand, Indonesia, and the Philippines—had elections in 2019, the results of which signal policy continuity.

• After moves to normalize monetary policy (following rate increases by the US Federal Reserve), most of the region’s central banks are now expected to ease in light of the US Federal Reserve’s more dovish stance.
Economic Risk: Low

• Singapore’s economy is open, highly developed, and affluent. Singapore’s economy is considered the second-freest in the world, according to the Index of Economic Freedom.
• The economy depends heavily on exports, making the country vulnerable to fluctuations in international demand. To promote the transition to a more knowledge-based service economy, the government has provided support to firms investing in technology-based innovation.
• Singapore’s demographic trends for long-term growth are challenging. The government’s most recent budget includes a substantial increase in social spending, including funding to increase health and disability insurance coverage for the older population. Revenue-raising measures, such as increases to the Goods and Services tax rate, are planned.
• Singapore’s tax system is transparent, with a relatively low corporate tax rate of 17%. Singapore is second out of 190 countries in the World Bank’s Ease of Doing Business survey, ranking first in the world for contract enforcement.

Political Risk: Low

• The government of Singapore is highly stable. The People’s Action Party (PAP) has led the country since the separation of Singapore from Malaysia in 1965. This concentration of power has allowed for policy continuity and predictability.
• Recent PAP policies have focused on addressing concerns surrounding high immigration, social mobility, and rising living costs. The PAP has been largely pro-business and focused on ensuring social stability.
• Singapore has a transparent legal framework that efficiently protects contractual rights. The judiciary has a high capacity and corruption levels are very low, with the country ranking third in the latest Corruption Perceptions Index.
• A long-standing maritime dispute with Malaysia over territorial waters occasionally resurfaces, causing diplomatic tensions. However, this is unlikely to escalate to military conflict.

Financial System Risk: Very Low

• The Monetary Authority of Singapore (MAS) is Singapore’s central bank, administering the Insurance Act and rigorously supervising the financial sector.
• Strong liquidity and solvency positions, significant foreign reserves, and the country’s status as a strong next external creditor all contribute to an adequate buffer against any external shocks.
• The banking system is healthy, with high levels of capital, excellent asset quality, and a low number of non-performing loans. Systemic linkages between the property market and the financial sector have led the MAS to focus its macroprudential policy on housing sector stability.