

Singapore Business Forecast Report Q1 2015

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Abstracts

Core Views

Singapore's ongoing restructuring drive continues, with the ruling People's Action Party pushing ahead with stricter foreign labour rules despite an increasingly tight labour market. While we believe that the tight labour market is acting as a headwind against economic growth, we do not foresee any easing from the government in the near future.

Singapore's real GDP growth accelerated slightly to 2.4% year-on-year (y-o-y) in Q314, but this remains below the government's forecasted range of 2.5-3.5% for 2014. We retain our below consensus real GDP growth forecast of 2.5% for 2014, and note that risks to our 3.3% growth forecast for 2015 are likely to the downside given domestic and external pressures.

Major Forecast Changes

We have adjusted our 2015 Singapore dollar average forecast down to SGD1.2500/USD from SGD1.2300/USD previously as the currency continues to experience headwinds from a strong US dollar as well as weakening currencies among its regional trading peers.

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CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Index

Domestic Politics

Competitiveness, Global Weakness To Hit Export Outlook

Singaporean exports have performed poorly throughout 2014, and we believe that the ongoing loss of competitiveness owing to the city-state's extremely tight labour market will be a key headwind against a strong recovery going forward. That said, we do not expect the People's Action Party to roll back its tighter immigration policies, as political imperatives will outweigh short-term economic growth concerns.

Table: Political Overview

Long-Term Political Outlook

Political Liberalisation Likely To Be Slow Over Next Decade

Singapore faces very limited political risks in the near term and we expect the ruling People's Action Party (PAP) to retain its monopoly on power through the next two election cycles at a minimum. However, over the longer term, the city-state will come under greater pressure from its citizens to become a more vibrant democracy and foster credible opposition parties, and PAP policy will likely shift towards slightly more populist measures as its popularity begins to erode.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

Economic Activity

MAS Stands Pat As GDP Disappoints

Following an expected 2.5% real GDP growth performance in 2014, we expect the Singapore economy to accelerate slightly to 3.3% in 2015. However, the country's tight labour market, along with the ongoing slowdown in China and renewed weakness in the eurozone pose downside risks to this forecast.

Table: Economic Activity

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Singapore's fiscal position is structurally sound, and despite growing expenditure commitments over the medium term owing to an ageing population, we do not foresee a material deterioration from the government's moderate fiscal surpluses.

Table: Fiscal Policy

Monetary Policy

AEC: Financial Services Liberalisation To Benefit Singapore

The creation of the AEC will make the regional commercial banking sector an attractive market opportunity due to the formidable size of its aggregate assets vis-a-vis other Asian countries. While we expect resistance from some ASEAN countries in liberalising certain areas of their markets to delay the full impact of the AEC, we believe there will be some progress on achieving many of the goals of a common financial services market by 2020. With by far the most developed financial markets within the region, Singapore is uniquely placed to benefit from the maturation of the AEC.

Table: Monetary Policy

Exchange Rate Policy

Weaker Peer Currencies A Drag On SGD

Despite the Singapore dollar's strength against the majority of its peers, broad USD strength has led us to downgrade our 2014 and 2015 average forecasts on the unit to SGD1.2700/USD and SGD1.25 00/USD, respectively, versus SGD1.2500/USD and SGD1.23 00/USD previously. While we expect the currency to continue to outperform the majority of its trade-weighted basket, downside risks against the US dollar remain prescient following the conclusion of the US Federal Reserve's Quantitative Easing programme.

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