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Limited Upside For Singapore Banks In 2017

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SINGAPORE (S&P Global Ratings) Feb. 15, 2017--Singapore's weak GDP growth will constrain the performance of the country's banking industry. That's according to a report, titled "2017 Will Be Another Subdued Year For Singapore Banks," that S&P Global Ratings published today.

"Growth will remain flat for Singapore's banks in 2017, further weighing down asset quality and creating pressure on profitability," said S&P Global Ratings credit analyst Ivan Tan. "The continued subdued performance will reflect weak domestic economic growth, global trade uncertainties, and a slowing China."

We estimate Singapore's full-year 2016 GDP growth to have been just 1.8%--its weakest since 2009, when the economy was hit by the global financial crisis. We forecast that growth will stay flat in 2017. A weak property market and the troubled offshore and marine sectors continue to weigh on growth.

The asset quality of the three Singapore banks we rate--DBS Bank Ltd., Oversea-Chinese Banking Corp. Ltd., and United Overseas Bank Ltd.--has only recently started to dip. The nonperforming loan (NPL) ratio of these banks increased to 1.4% as of Sept. 30, 2016, from 1.1% as of Dec. 31, 2015. We believe Singapore is at the early stages of a downturn in the credit cycle, and things are likely to get worse in 2017 and 2018.

We forecast Singapore banks' loan growth to remain modest in 2017 at 3%-5%, broadly in line with these banks' guidance. Loan growth will mainly come from funding corporate entities' overseas investments and drawdown of mortgages previously approved.

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"Sluggish loan growth and higher credit costs, offset by higher net interest margins, will culminate in modest to flattish profit growth," said Mr. Tan. "Higher-than-expected provisioning costs represent the main downside risk to profitability."

S&P Global Ratings maintains its stable outlook on the Singapore banking sector for 2017. Stable capitalization over the next 18-24 months should offset asset quality pressure and flattish profitability. Liquidity will remain robust due to banks' strong franchises and low reliance on wholesale sources. In addition, we continue to factor in a high likelihood of extraordinary government support for Singapore banks.

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on the S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.