Understanding Singapore Government's borrowing and its purposes

An Overview

Contents

1. Introduction

1.1 This write-up provides the public and analysts with an understanding of the Singapore Government’s borrowing portfolio and its purposes.

Purpose of Borrowing

1.2 The Singapore Government currently[1] issues the following domestic debt securities for reasons unrelated to the Government’s fiscal needs:

(1) Singapore Government Securities are issued to develop the domestic debt market;

(2) Special Singapore Government Securities are non-tradable bonds issued primarily to meet the investment needs of the Central Provident Fund (CPF)[2], Singapore’s national pension fund; and

(3) Singapore Saving Bonds are introduced to provide individual investors with a long term saving option that offers safe returns.

1.3 **Under the Government Securities Act, the borrowing proceeds from the issuance of these securities cannot be spent and are invested**. The Singapore Government operates on a balanced budget policy**.** In earlier decades of growth as an emerging economy, Singapore recorded healthy budget surpluses, which also contributed to the reserves. Singapore is one of the few countries in the world with a net asset position, and **our financial assets are well in excess of our liabilities.**

Types of Borrowing

<u>Singapore Government Securities (SGS)</u>

1.4 SGS[3] are marketable debt instruments issued primarily for developing Singapore's debt markets. They comprise Treasury Bills (T-bills), which are short-term (1 year), as well as longer-term SGS bonds (2 years to 30 years). The principal objectives of SGS issuance are to:

(1) Build a liquid SGS market to provide a robust Government yield curve for the pricing of private debt securities;

(2) Foster the growth of an active secondary market, both for cash transactions and derivatives, to enable efficient risk management; and

(3) Encourage issuers and investors, both domestic and international, to participate in the Singapore bond market.

[1] In Budget 2019, the Government announced that it would study the option of using Government debt as part of the financing mix for long-term infrastructure projects that the Government would be taking on directly.
[2] The CPF is Singapore’s mandatory pension fund scheme. The CPF Board administers the CPF scheme and collects CPF contributions from employers and members, and dispenses funds to members under the various approved CPF withdrawal schemes.
[3] More details can be found at the SGS website: www.sgs.gov.sg.

Special Singapore Government Securities (SSGS)

1.5 SSGS are non-marketable bonds primarily issued to the CPF Board. Under the arrangements between the Singapore Government and the CPF Board, surplus CPF funds are placed with the Government through the central bank, the Monetary Authority of Singapore (MAS), for subscription of SSGS.

1.6 The investment of CPF funds by the Government relieves the CPF Board from taking on the investment risk of a fund manager to concentrate on its primary role as a national social security institution. This allows the CPF scheme to meet basic retirement needs as members are ensured safe and fair returns on their monies.

(1) CPF returns are safe as the guaranteed floor on CPF interest rates shields members from the risk of low interest rates when markets are weak; and

(2) CPF returns are fair as they are pegged to investments of comparable risk and duration in the market.

Singapore Saving Bonds (SSB)

1.7 The SSB was introduced on 1st October 2015. The objective of the SSB is to provide individual investors with a long term savings option that offers safe returns. This would thus encourage individuals to save and invest to meet their long term financial goals and retirement needs.

1.8 The SSB have the following key features:

(1) Both principal and interest payments are guaranteed by the Government;

(2) SSBs are non-tradable securities which protect individuals from capital losses;

(3) The minimum investment amount is $500 (half the minimum amount of SGS bonds); and

(4) Bond-holders can earn interest that is linked to long-term SGS rates. Individuals have the flexibility to redeem their bonds in any given month, with no penalty. To encourage long term savings, the SSB also pays coupons that increase over time so that effective coupon rates are higher the longer the bonds are held.

Legislation for Borrowing

1.9 The issuance of Government securities (SGS bonds, SSGS and SSB) and T-bills are governed by the Government Securities Act (GSA) and the Local Treasury Bills Act (LTBA), respectively. The MAS undertakes the issuance and management of Government securities and T-bills on behalf of the Singapore Government[4].

1.10 The GSA and LTBA define separate debt ceilings for Government securities and T-bills, which are authorised by resolutions in Parliament and approved by the President of the Republic of Singapore. The current authorised net borrowing limits for Government securities and T-bills as of March 2019 are S$690b and S$60b respectively.

Accounting for Borrowing Flows

1.11 Borrowing flows are accounted for under the Government Securities Fund. All proceeds raised from securities issuance, including T-bills, and any investment returns derived from the proceeds are paid into the Government Securities Fund. Payments from this fund are limited to the payment of interest, repayment of principal and expenses incidental to the investment and management of the monies in the Government Securities Fund.

1.12 The borrowing proceeds are first deposited with MAS as Government deposits. MAS converts the borrowing proceeds into foreign assets through the foreign exchange market. As a major portion of these assets are of a long-term nature, such as those that provide backing for long-term Government liabilities like SSGS, such assets are eventually transferred to GIC to be managed over a long investment horizon[5].

[4] The MAS issues MAS Bills as a tool for its money market operations starting 2Q 2011. These bills do not constitute securities of the Singapore Government.
[5] More information is available on the MOF website: http://www.ifaq.gov.sg/MOF/apps/fcd_faqmain.aspx#FAQ_59748.

2. Singapore Government Borrowing

Size and Composition

2.1 Total outstanding Government borrowing were S$562b as at March 2019 (Table 2.1), and the borrowings are denominated in Singapore Dollar (i.e. no debt denominated in foreign currency).

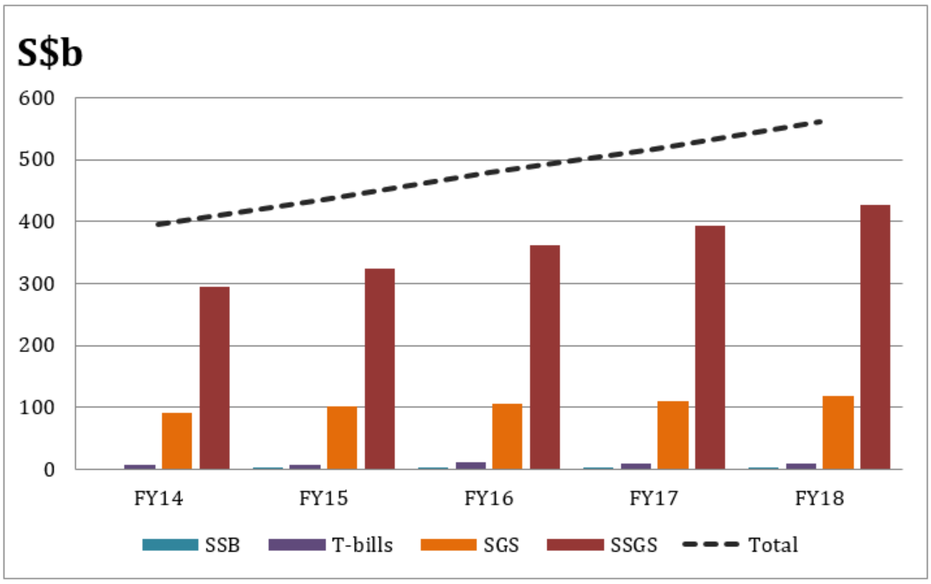
Table 2.1: Composition of Singapore Government Borrowing*

Type of Government Borrowing	Mar 2019 (S$b)
SSB	4
T-bills	10
SGS Bonds	119
SSGS[6]	428
Total Singapore Government Borrowing	562

** Numbers may not add up due to rounding*

2.2 Over the past few years, the Singapore Government has increased issuance of SGS steadily, at around 5% - 8% per annum. Market conditions have been supportive, driven by an increase in demand for high quality liquid assets from financial institutions[7]. SSGS has also been increased to match higher CPF members' balances. (Chart 2.1)

Chart 2.1: 5-Year Growth of Singapore Government Borrowing



2.3 Market demand for Singapore's debt securities has been strong over the past five years. The Bid-to-Cover Ratios[8] for SGS bonds and T-bills auctions averaged 1.94 and 2.09 respectively from FY2014 to FY2018.

[6] Includes Advance Deposits.
[7] The Singapore Government has also started to issue 6-month T-bills from July 2019 to meet the growing demand for short-term rated SGD instruments.
[8] Bid-to-Cover Ratio refers to the number of bids received in an auction compared to the number of bids accepted.

Maturity

2.4 The weighted-average maturity of outstanding SGS bonds and T-bills was 6.70 years as at March 2019. The focused SGS bond issuance programme has helped to establish a liquid SGS yield curve. Over the years, the SGS benchmark yield curve has also been extended to the current 30-year tenor.

Debt Position

Gross Debt

2.5 The gross debt-to-GDP ratio is a measure of a country's debt compared to its economic output. Some international reports list Singapore as having high levels of Government debt. These include the CIA Public Debt Factbook and the World Economic Forum. However, this does not mean that Singapore is not fiscally sustainable. For Singapore, the use of gross debt figures does not provide a meaningful indicator of the country's fiscal strengths.

2.6 For example, the level of Government debt outstanding at S$562b (March 2019) or 114% of Gross Domestic Product (GDP)[9] appears large on its own. However, the gross debt-to-GDP ratio does not take into account **the Government's sizeable asset position, which exceeds its liabilities.**

Net Debt

2.7 **The Singapore Government has a strong balance sheet, with assets well in excess of its liabilities (i.e. no net debt).** This can be seen from the investment returns that are made available for spending on the Government Budget – or Net Investment Returns Contribution (NIRC)[10]. Under the NIR framework, up to 50% of the long-term expected returns earned on the net assets (i.e. assets net of liabilities) are available for spending. The NIRC of about S$16 billion taken into the Government's budget in Fiscal year 2018 for spending means that even after deducting all the Government's liabilities (including CPF monies), the remaining net assets are sizeable, and they are expected to generate significant investment returns. If the Government's assets had not been adequate to meet its liabilities, there would be no contribution from the investment returns on net assets in the Government Budget.

2.8 Reputable organisations such as BlackRock and the three main credit-rating agencies (Standard & Poor's, Fitch and Moody's) consider both the Government's assets and liabilities when assessing Singapore's debt sustainability. This approach offers a more accurate and holistic perspective that takes into account the Government's net asset position.

2.9 **In the October 2018 BlackRock Sovereign Risk Index update, Singapore ranked 1st in the BSRI in terms of credit worthiness.** The BSRI tracks sovereign credit risk based on a range of factors which includes net debt-to-GDP, Government's stability, and exposure to foreign currency debt.

---

[9] 2018 GDP at Current Market Prices: S$491.175b (Singapore Department of Statistics).

[10] More details on the Singapore Government's reserves and the NIR framework is available on the Ministry of Finance's website "Our Nation's Reserves".

Credit Rating

2.10 **Singapore has achieved the top credit ratings of triple-A** with a stable outlook from the three main credit-rating agencies (Standard & Poor’s, Fitch and Moody’s).

2.11 The rating agencies cited Singapore’s prudent fiscal framework and strong governance indicators (Standard & Poor's, Apr 2018), strong external balance sheet (Fitch, Sep 2018) and high levels of economic, institutional and fiscal strength (Moody’s, Apr 2019) as rating strengths.

Updated on July 2019

Accountant-General's Department
100 High Street #06-01
The Treasury
Singapore 179434