

# Singapore Government Borrowing

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## An Overview

# Singapore Government Borrowing

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# Singapore Government Borrowing

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## 1. Introduction

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**1.1** This write-up aims to provide 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 does not have any external debt.

**1.3** Two types of domestic debt securities are issued, both 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)<sup>1</sup>, Singapore's national pension fund.

**1.4** Under the Protection of Reserves Framework in the Constitution of the Republic of Singapore, the Singapore Government cannot spend any monies raised from Government borrowing. All the proceeds from the Government's borrowing must therefore be invested.

**1.5** The Singapore Government hence operates on a balanced budget policy. In earlier decades, it recorded healthy budget surpluses, which also contributed to the reserves.

### Types of Borrowing

#### Singapore Government Securities (SGS)

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

- i. Build a liquid SGS market to provide a robust government yield curve for the pricing of private debt securities;
- ii. Foster the growth of an active secondary market, both for cash transactions and derivatives, to enable efficient risk management; and
- iii. Encourage issuers and investors, both domestic and international, to participate in the Singapore bond market.

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<sup>1</sup> The CPF is Singapore's mandatory pension fund scheme. The CPF Board administers this defined contribution scheme and collects CPF contributions from employers and members, and dispenses funds to members under the various approved CPF withdrawal schemes.

<sup>2</sup> More details can be found at the SGS website: [www.sqs.gov.sg](http://www.sqs.gov.sg).

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## Special Singapore Government Securities (SSGS)

**1.7** 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, Monetary Authority of Singapore (MAS), for subscription of SSGS. 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.

## **Legislation for Borrowing**

**1.8** The issuance of Government securities (SGS bonds and SSGS) 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<sup>3</sup>.

**1.9** 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 authorised net borrowing limits for Government securities and T-bills as of November 2013 are S\$490b and S\$60b respectively.

**1.10** In accordance with the GSA and LTBA, 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 and repayment of principal. These payments are statutory obligations of the Government. This framework ensures that the Government's borrowing is not used to fund the Government's expenditures.

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<sup>3</sup> 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.

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## 2. Singapore Government Borrowing

### Size and Composition

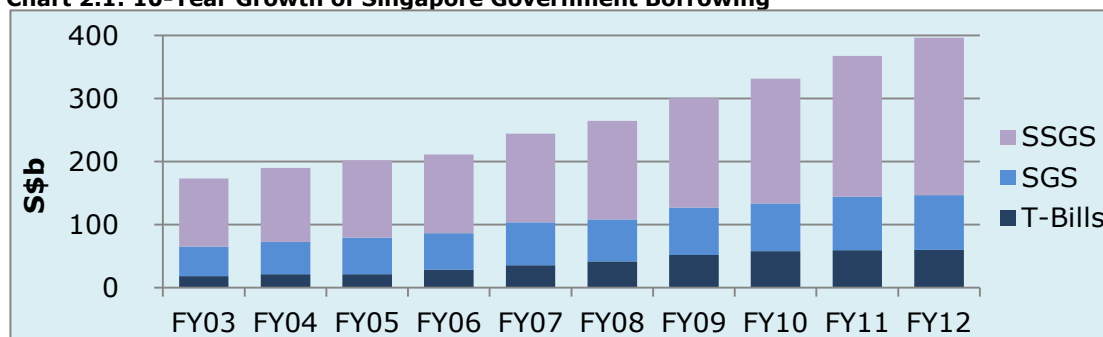
**2.1** Total outstanding Government borrowings were S\$396b as at March 2013. This comprised S\$60b of T-Bills, S\$87b of SGS bonds, and S\$249b of SSGS<sup>4</sup> (Table 2.1).

**Table 2.1: Composition of Singapore Government Borrowing**

Type of Government Borrowing	Mar 2013 (S\$b)
T-bills	60
SGS Bonds	87
SSGS <sup>4</sup>	249
<b>Total Singapore Government Borrowings</b>	<b>396</b>

**2.2** The Singapore Government has increased issuance of SGS steadily in line with long term economic fundamentals. SSGS has also increased to match higher CPF members' balances (Chart 2.1).

**Chart 2.1: 10-Year Growth of Singapore Government Borrowing**



**2.3** Market demand for Singapore's debt securities has been strong over the past ten years. The Bid-to-Cover Ratios<sup>5</sup> for SGS bonds and T-bills auctions averaged 1.99 and 1.92 respectively from FY2003 to FY2012.

### Maturity

**2.4** The weighted-average maturity of outstanding SGS bonds was 6.1 years as at March 2013. 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.

<sup>4</sup> Includes Advance Deposits.

<sup>5</sup> Bid-to-Cover Ratio refers to the number of bids received in an auction compared to the number of bids accepted.

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## Debt Position

### Gross Debt

**2.5** For a country like Singapore which does not engage in sovereign borrowing for purpose of government spending, the use of gross debt figures does not provide a meaningful representation of the country's fiscal strengths.

**2.6** For example, the level of Government debt outstanding at S\$396b (March 2013) or 114% of Gross Domestic Product (GDP)<sup>6</sup> appears large on its own. However, it does not take into account the Government's asset position, which exceeds its liabilities, and its ability to service debts through returns on its assets, as discussed below.

### Net Debt

**2.7** Proceeds from the Singapore Government's borrowing are entirely invested, as indicated in para 1.4.

**2.8** The Government's assets are mainly managed by GIC Private Limited. The Government also places deposits with the MAS; in turn, MAS as a statutory board holds its own assets on its balance sheet. In addition, the Government is the sole equity shareholder of Temasek Holdings (Temasek). Temasek owns the assets on its balance sheet. More information is available on the MOF website ([http://app.mof.gov.sg/reserves\\_sectionone.aspx](http://app.mof.gov.sg/reserves_sectionone.aspx)).

**2.9** The investment returns are more than sufficient to cover the debt servicing costs. The Singapore Government also has a strong balance sheet, with assets well in excess of its liabilities. This can be seen from the investment returns that are made available for spending on the Government Budget – or Net Investment Returns Contribution (NIRC). Under the NIRC 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\$7 billion each year means that even after deducting all the Government's liabilities (including CPF monies), the remaining net assets produce significant returns.

**2.10** Reputable research agencies are taking a net debt approach – reflecting both the Government's assets and liabilities – in assessing Singapore's debt sustainability. This measure offers a more accurate and holistic perspective that takes into account the Government's net asset position.

**2.11** In the April 2013 BlackRock Sovereign Risk Index (BSRI) report, Singapore ranked 2<sup>nd</sup> in the BSRI in terms of credit worthiness. A key strength highlighted was Singapore's net asset position.

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<sup>6</sup> Total Government borrowing of S\$396b compared against 2012 GDP of S\$346b.

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### **Credit Rating**

**2.12** Since 2003, Singapore has consistently achieved the top credit ratings of triple-A with a stable outlook from the three main credit-rating agencies.

**2.13** The rating agencies cited Singapore's robust public finances (Standard & Poor's, May 2013), strong external finances (Fitch, March 2013) and economic resiliency (Moody's, May 2013) as rating strengths.

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