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 issues three types of domestic debt securities, all 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)[1], 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 Protection of Reserves Framework in the Constitution of the Republic of Singapore, borrowing proceeds are not revenues that the Government is allowed to spend. All the proceeds from the Government's borrowing are therefore invested.

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

1.5 The Singapore Government does not have any debt denominated in foreign currency.

Types of Borrowing

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

1.6 SGS[2] 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;

[1] 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.
[2] More details can be found at the SGS website: www.sgs.gov.sg.

(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.

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.

1.8 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)

1.9 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.

1.10 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 normal 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

1.11 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[3].

1.12 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 2016 are S$490b and S$60b respectively.

Accounting for Borrowing Flows

1.13 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 and repayment of principal.

1.14 To ensure that the Government's borrowing cannot be used to pay for the Government's expenditures, borrowing proceeds are deposited in a separate account with MAS and not used for operations.

1.15 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[4].

[3] 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.
[4] 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

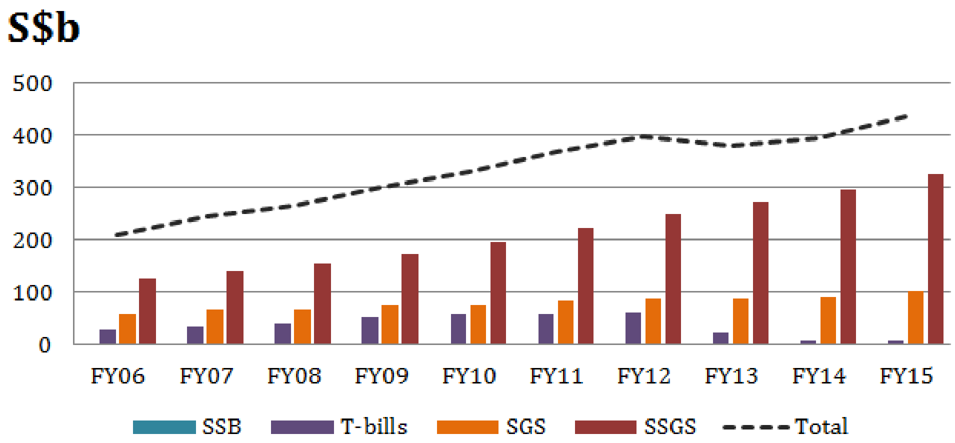
2.1 Total outstanding Government borrowing were S$436b as at March 2016. This comprised S$9b of T-bills, S$101b of SGS bonds, S$1b of SSB and S$325b of SSGS[5] (Table 2.1).

Table 2.1: Composition of Singapore Government Borrowing

Type of Government Borrowing	Mar 2016 (S$b)
SSB	1
T-bills	9
SGS Bonds	101
SSGS[5]	325
Total Singapore Government Borrowing	436

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. Issuance of T-bills has decreased, as the issuance of MAS Bills by MAS has supplemented the use of T-bills in MAS' money market operations. (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[6] for SGS bonds and T-bills auctions averaged 1.93 and 1.88 respectively from FY2006 to FY2015.

Maturity

2.4 The weighted-average maturity of outstanding SGS bonds was 6.84 years as at March 2016. The focused SGS bond issuance programme has helped to establish a liquid

[5] Includes Advance Deposits.
[6] Bid-to-Cover Ratio refers to the number of bids received in an auction compared to the number of bids accepted.

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 report. However, this does not mean that Singapore is not fiscally sustainable as 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 comparison of the country's fiscal strengths.

2.6 For example, the level of Government debt outstanding at S$436b (March 2016) or 108% of Gross Domestic Product (GDP)[7] 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 The Singapore Government 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$8 billion each year means that even after deducting all the Government's liabilities (including CPF monies), the remaining net assets produce significant returns. By netting off the liabilities, Government is also in effect setting aside returns to cover the costs of servicing the liabilities. 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 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.

2.9 In the Q12016 BlackRock Sovereign Risk Index (BSRI) report, Singapore ranked 2nd 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.

[7] 2015 GDP: S$402.0b (MTI Economic Survey of Singapore).

Credit Rating

2.10 Since 2003, **Singapore has consistently 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 robust public finances (Standard & Poor's, Apr 2016), strong external balance sheet (Fitch, Nov 2015), and high levels of economic, institutional and fiscal strength (Moody's, June 2015) as rating strengths.

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