

Singapore Government Borrowings

An Overview

Accountant-General's Department

July 2011

Singapore Government Borrowing

| <u>Content</u> | <u>Page</u> |
|--|--------------------|
| 1. <u>Introduction</u> | |
| Purpose of Borrowing..... | 3 |
| Type of Borrowing | 3 |
| Legislation for Borrowing..... | 4 |
| 2. <u>Singapore Government Borrowing</u> | |
| Size and Composition. | 5 |
| Maturity | 5 |
| Debt Position | 6 |
| Credit Rating | 6 |

Singapore Government Borrowing

1. Introduction

1.1 This is a write-up on the Singapore Government's borrowing portfolio. It aims to provide analysts and the public with a better understanding of the unique nature of the borrowing of the Singapore Government.

Purpose of Borrowing

1.2 The Singapore Government operates on a balanced budget policy and does not need to finance her expenditures via the issuance of Government bonds. It has enjoyed healthy budget surpluses over terms of Government in the past decades.

1.3 The Singapore Government does not have any external debt. Two types of domestic debt securities are issued 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 specifically to meet the investment needs of the Central Provident Fund (CPF)¹, Singapore's national pension fund.

1.4 The Constitution of the Republic of Singapore defines reserves as the excess of assets over liabilities. The unique Protection of Reserves Framework of the Singapore Government ensures that it only spends on the reserves accumulated during each term of Government. The Government cannot spend on its borrowing. All the proceeds from the Government's borrowing are therefore invested.

Type of Borrowing

Singapore Government Securities (SGS)

1.5 SGS² 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 20 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.

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.sqs.gov.sg.

Singapore Government Borrowing

Special Singapore Government Securities (SSGS)

1.6 SSGS are non-marketable floating rate bonds issued specifically 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 Monetary Authority of Singapore (MAS) for subscription of SSGS.

1.7 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. By issuing SSGS to the CPF Board and investing the proceeds from the borrowing, the Singapore Government is one of the few countries in the world that explicitly recognizes and fully funds her national pension obligations.

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 Government³.

1.9 The GSA and LTBA define separate debt ceilings for Government securities and T-bills, which are authorized by resolutions in Parliament and approved by the President of the Republic of Singapore. The authorized net borrowing limits for Government securities and T-bills as of July 2011 are S\$320b and S\$60b respectively.

1.10 In accordance with the GSA, 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 and are a statutory obligation. This framework ensures that the Government's borrowing are not used to fund the Government's expenditures and the interest payment and principal repayment are not subject to parliamentary approval.

³The MAS issues MAS bills as a new tool for its money market operations starting 2Q 2011. These bills do not constitute as securities of the Singapore Government.

Singapore Government Borrowing

2. Singapore Government Borrowing

Size and Composition

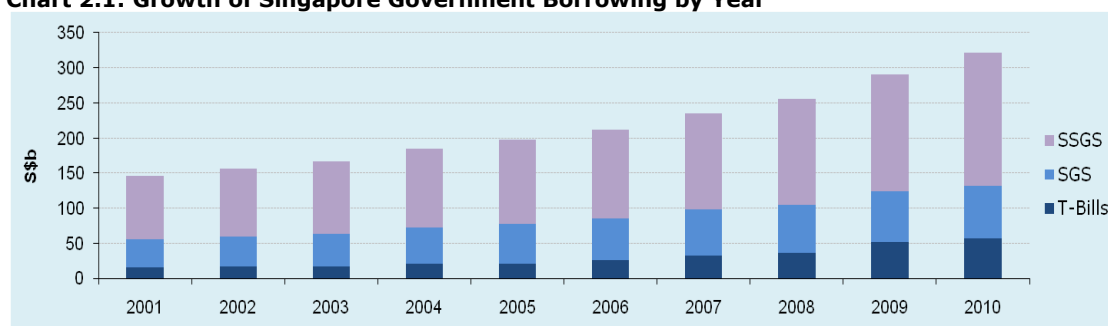
2.1 Total outstanding Government borrowing was S\$312b as at December 2010. This comprised S\$57b of T-Bills, S\$76b of SGS bonds, S\$179b of SSGS⁴.

Table 2.1: Composition of Singapore Government Borrowing

| Types of Government Borrowing | Dec 2010 (S\$b) |
|---|-----------------|
| T-bills | 57 |
| SGS Bonds | 76 |
| SSGS | 179 |
| Total Singapore Government Borrowing | 312 |

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: Growth of Singapore Government Borrowing by Year



2.3 Market demand for Singapore's debt securities has been strong over the past ten years. The Bid-to-Cover Ratios⁵ for SGS bonds and T-bills auctions averaged 2.01 and 1.96 respectively from 2001 to 2010.

Maturity

2.4 The weighted-average maturity of outstanding SGS bonds was 5.6 years as at December 2010. SGS bonds issuance has helped establish the benchmark bond issues across the yield curve, with a higher concentration on the shorter tenure, given the higher demand from investors. Over the years, the SGS benchmark yield curve has also been extended and smoothed.

⁴ Includes advance deposits accepted under the GSA.

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

Singapore Government Borrowing

Debt Position

Gross Debt

2.5 For a country like Singapore which does not borrow to spend, the use of gross debt figure alone may not provide an accurate or meaningful representation of the country's net liabilities or more importantly, its fiscal strengths. For example, the level of Government debt outstanding at S\$312b (December 2010) or 103% of Gross Domestic Product (GDP)⁶ appears large on its own. However, it does not take into account the ability of the Singapore Government to service the debt through factors such as a strong asset position, robust economic growth, and prudent macroeconomic policies.

Net Debt

2.6 Proceeds from the Singapore Government's borrowing are invested. The Government's assets include investments in the Government of Singapore Investment Corporation⁷ and the Temasek Holdings⁸.

2.7 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.

2.8 Research agencies have started to take a net debt approach – looking at both the Government's assets and liabilities - in assessing the debt sustainability of Singapore. This measure offers a more accurate and holistic perspective that takes into account the large net asset position of Singapore.

Credit Rating

2.9 Since 2003, Singapore has consistently achieved the top short-term credit ratings as well as long-term credit ratings of triple-A, with a stable outlook from the three main credit-rating agencies (Table 2.2).

Table 2.2 Singapore Sovereign Ratings by Rating Agencies

| Rating Agency | Long-Term Credit Rating | Short-Term Credit Rating |
|-------------------|-------------------------|--------------------------|
| Fitch Ratings | AAA | F1+ |
| Moody's | Aaa | P-1 |
| Standard & Poor's | AAA | A-1+ |

2.10 The rating agencies cited Singapore's high level of economic resilience derived from rapid economic growth, strong balance sheet⁹, high net investment surplus position¹⁰, and robust public finances¹¹ as rating strengths.

⁶ Total Government securities of S\$312b compared against 2010 GDP of S\$304b.

⁷ As of 31 March 2009, GIC invests well over US\$100b internationally in a wide range of asset classes and instruments (www.gic.com.sg).

⁸ As of 31 March 2011, the market value of Temasek's portfolio is S\$193b (www.temasek.com.sg).

⁹ Moody's Credit Opinion: Singapore, Government of, February 2011.

¹⁰ Fitch Ratings: Singapore, April 2011.

¹¹ S&P: Research Update, August 2010.



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