# SINGA bonds Q&A

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## Highlights:

Since the government's announcement of the intention to issue SINGA bonds – SGS (Infrastructure) under the Significant Infrastructure Government Loan Act, we have received numerous queries surrounding this "new" type of bonds. In this piece, we attempt to address some of the more common questions.

**1. To ensure borrowings are used responsibly and sustainably, the SINGA will include strict legislative safeguards on (a) the projects that can qualify, and (b) the amount of borrowings that can be raised. Are these safeguards sufficient?**

The criteria for qualifying projects look fairly prudent in that these projects have to be owned by the Government, be major, be long-term with at least 50 years of operational life-span (ie. long-term infrastructure projects to benefit different generations), and be important to national interests.

Borrowings are subject to a gross limit of SGD90bn and an annual interest expense of SGD5bn. For the gross borrowing limit of SGD90bn, at slightly less than 20% of GDP, one comparison would be the amount of fiscal support extended by the various Covid-19 budgets last year. The SGD5bn interest expense cap can be viewed from two perspectives. First, it embeds an assumed financing cost of 5% plus to the gross limit of SGD90bn; this is unlikely to be binding in the foreseeable future, but represents a vigilant buffers against potential market movement in the longer term. Second, SGD5bn roughly amounts to around 1% of nominal GDP, which is at the low end of comparable sovereign credits. The need to pass a new bill to amend the gross limit and/or annual interest limit should help to allay any potential market concerns about sovereign debt financing.

**2. How do we explain the "hump" in development expenditure for the next 15 years?**

Infrastructure projects identified as eligible for financing under SINGA includes the Cross Island Line, Jurong Regional Line and the Deep Tunnel Sewerage System etc. It looks like the hump is due to a combination of factors. First, there is the need to implement these lumpy projects over the next decade or beyond, but the fiscal position may be relatively tight to start with, after two consecutive years of fiscal deficit and significant tapping of past reserves to fund the Covid-19 support measures since 2020. Second, the planned GST hike from 7% to 9% has also been pushed out by at least a year due to the pandemic as it would have been untenable to do it when the Singapore economy is still suffering an uneven recovery and the local labour market conditions remains soft.

**3. Why can't government agencies raise their own bonds for individual projects?**

While government agencies are not restricted per se from raising their own bonds for individual projects, there may be some economies of scale for the government to be the coordinator for the SINGA financing as it is AAA-rated; the government can manage the supply holistically with SGS (Market development) – the existing SGS the proceeds of which cannot be spent, as well as ensure any debt financing for these lumpy and nationally significant infrastructure projects is done in a sustainable and responsible fashion. Bonds issued by statutory boards still come at a modest spread to SGS.

**4. Why shall Singapore capitalise the costs of nationally significant infrastructure projects and smooth out the development expenditure?**

Given that these are long-term infrastructure projects delivering benefits over 50 years, streaming out the financing better matches the asset lifespan. It will be a more appropriate arrangement to have the expenses shared across generations, compared to financing using government revenues and current reserves, i.e. fully up-front.

It is worth to note, that after charging these smoothed-out expenditure and the associate financing costs, the Government still need to maintain an overall balanced budget over each term. Hence, the fiscal position and standing of the Singapore government should not be adversely affected in the interim.

**5. How will this affect Singapore's credit rating?**

The introduction of SGS (Infrastructure) is highly unlikely to affect Singapore's sovereign credit rating. First, there are clear safeguards for the SINGA program with very well-defined and tightly managed criteria for what qualifies for SINGA. This should give reassurance to market that Singapore's fiscal position and financing framework remains robust. Second, the supply of SGS (Infrastructure) and SGS (Market Development) will be managed holistically calibrating to demand, which should reassure investors that there would not be any supply indigestion when the first issuance of SGS (Infrastructure) comes to market in 4Q21. The bottom line is, that Singapore is moving nearer to the global norm where the proceeds of sovereign bond issuance are used to finance fiscal spending – but in a much more prudent manner as corresponding spending is highly restricted to Nationally Significant Infrastructure.

**6. What does the issuance of the new category of SGS bonds mean for investors?**

SGS (Infrastructure) rank *pari passu* with SGS (Market Development). Both are under the same tax and regulatory treatment; both shall be priced along the same yield curve. SGS (Infrastructure) are not infrastructure bonds; the repayment depends entirely on the creditworthiness of the Singapore Government, which is currently rated at AAA.

Despite being essentially the same bond as SGS (Market Development), SGS (Infrastructure) offer additional options for investors. First, there will be a green bond category. Second, SGS (Infrastructure) duration is likely to be longer, which shall garner additional interest from insurance companies and pension funds. Since there has been some SGD corporate bonds that currently extend beyond the longest duration of SGS bond, it is plausible that in time to come SGS (Infrastructure) could also help extend the sovereign yield curve beyond the 30-year tenor.

In conclusion, the introduction of SGS (Infrastructure) would potentially add to the depth and liquidity of the SGS bond market and be welcomed by investors. In the interim, much would depend on the external global yield environment and the supply dynamics.

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