Singapore—Update

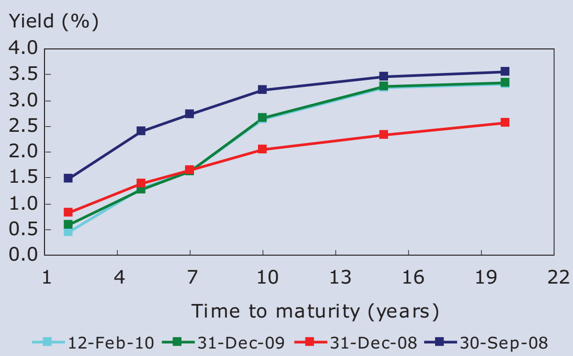
Yield Movements

As of mid-February, Singapore benchmark bond yields were largely unchanged from their end-December levels, except for a slight drop in the 2-year benchmark yield. On 1 March, the government re-opened a 15-year government bond that was auctioned in August 2009 and will mature in September 2024.

According to final data released by the Ministry of Trade and Industry (MTI) on 19 February, Singapore's gross domestic product (GDP) grew 4.0% year-on-year (y-o-y) in 4Q09, up from 0.6% growth posted in the previous quarter. For the full-year 2009, Singapore's GDP contracted 2.0%, which was well within the government's forecast of a 2.0%–2.5% contraction. The country's manufacturing sector dipped 4.1% in 2008, while the construction sector posted 16.0% growth. Service-producing industries dipped 2.2%, as most major service sectors contracted. For 2010, the government now expects the economy to grow 4.5%–6.5%, following an earlier forecast of 3.0%–5.0% growth.

Full-year inflation for 2009 was 0.6% after having been in negative territory throughout the July–December period. In January, consumer price inflation rose to 0.2% y-o-y. The government also revised its inflation forecast for 2010 downward from 2.5%–3.5% to 2.0%–3.0%. The revision is attributable to the re-basing of the consumer price index (CPI) for 2009. According to the Monetary Authority of Singapore (MAS), the current monetary policy stance remains appropriate. In October 2009, MAS decided to maintain its zero percent appreciation policy for Singapore's currency. This policy was first put in place in October 2008 in response to the weakening global economy. MAS also maintained the level and width of the exchange rate policy band. During its policy review in April 2009, MAS re-centered the exchange rate policy band. The next monetary policy meeting is scheduled for April 2010.

Figure 1: Singapore's Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg, LP.

Given improvements in the domestic and global economies, the government plans to unwind the stimulus policies it implemented at the height of the financial crisis. Last year, Singapore's government tapped its reserves to fund a SGD20.5 billion resilience package. The budget deficit for fiscal year (FY) 2009/2010 is estimated at SGD8.5 billion (equivalent to 3.3% of GDP), which is less than an earlier estimate of SGD14.9 billion. On 22 February, the government announced an expected budget deficit of SGD3 billion (equivalent to 1.1% of GDP) for FY 2010/2011. In terms of spending, the government will gradually phase-out the Job Credit and Special Risk Initiative schemes, but will increase spending on education, healthcare, and transport infrastructure.

Size and Composition

As of end-December 2009, the amount of total local currency (LCY) bonds outstanding was SGD211 billion, representing a 15.3% y-o-y increase from SGD182 billion in December 2008 **(Table 1)**. Government bonds outstanding increased 18.3% y-o-y to SGD124 billion, while corporate bonds outstanding rose 12.1% y-o-y. Corporate issuance in 4Q09 included Temasek's issue of SGD600 million in 20- and 30-year bonds.

Table 1: Size and Composition of Local Currency Bond Market in Singapore

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	SGD	USD	SGD	USD	SGD	USD	SGD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	212	150	210	150	208	150	211	150	15.3	5.6	(0.7)	(1.2)	15.6	(0.4)	1.5
Government	123	87	122	87	123	89	124	88	20.7	6.0	(0.2)	0.7	18.3	0.9	0.4
Bills	49	35	51	36	52	37	52	37	46.7	7.2	2.8	1.8	45.1	5.7	1.0
Bonds	73	52	72	51	72	52	72	51	7.8	5.2	(2.3)	-	4.2	(2.3)	-
Corporate	89	63	88	63	84	61	87	62	8.6	5.0	(1.3)	(4.0)	12.1	(2.2)	3.2

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.
2. Bloomberg end-of-period LCY—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Monetary Authority of Singapore and Bloomberg LP.

At the end of December, the top 20 corporate issuers accounted for 37% of total corporate bonds outstanding **(Table 2)**.

Policy, Institutional, and Regulatory Developments

Amendments to Government Securities Act Provide More Power to the Central Bank

On 11 January, the Parliament passed the Government Securities (Amendment) Bill 2009 that provides MAS more regulatory powers and the flexibility to manage the government bond market. When in force, the bill will provide MAS regulatory powers over the primary dealers of bonds, namely, the power to inspect, suspend, and revoke appointments of primary dealers. The amendment will authorize MAS to redeem its Singapore Government Securities (SGS) before maturity at market price, if it deems necessary. MAS will also be allowed to enter into securities lending arrangements involving SGS with primary dealers. The amount MAS can lend, however, is limited to its own holdings. When MAS holdings are not enough to meet primary dealers' demand for SGS, the government can issue new SGS to MAS, which MAS can lend on an overnight basis.

Table 2: Bonds Outstanding of Top Corporate Issuers

Issuer	Outstanding Amount (SGD billion)
Housing &Development BRD (Public Housing Auth.)	5.35
Capital Land Ltd. (Real Estate)	3.67
United Overseas Bank Ltd (Banking)	3.62
SP Power Assets Ltd. (Electricity Transmission and Distribution)	2.41
Oversea-Chinese Banking (Banking)	2.20
Public Utilities Board (National Water Authority)	2.10
Land Transport Authority (Building and Contruction)	1.80
DBS Bank Ltd/Singapore (Banking)	1.61
F&N Treasury Pte Ltd (Food Service, Property, and Pub & Printing)	1.40
PSE Corp. Ltd. (Container Transhipment Hub)	1.20
Singapore Airlines (Airlines)	0.90
Ascott Capital Pte Ltd (Real Estate)	0.76
Yanlord Land Group (Real-estate Developer PRC-based)	0.71
Capitaland Treasury Ltd (Real Estate Operations)	0.70
HK Land Treasury Service (Property Investment Management)	0.70
Capitamall Trust (REITS-Shopping Centers)	0.65
Mapletree Treasury Svcs (Special Purpose Entity)	0.60
Temasek Financial (Investment Company)	0.60
City Developments (Hotels and Motels)	0.53
Keppel Land (Real Estate Developer)	0.51
Total	**32.02**
% of Total Corporate Outstanding	**36.73%**

Source: Bloomberg, LP.

MAS Ends Swap Facility

MAS allowed its USD30 billion swap facility with the US Federal Reserve to lapse on 1 February as a result of improving wholesale funding market conditions.

Government Plans to Earmark Funds to Increase Productivity

Over the next 5 years, the government plans to spend SGD1.1 billion in tax benefits, grants, and training subsidies to boost productivity. Specific measures include:

(i) expansion of the Continuing Education and Training (CET) system;

(ii) increase in maximum payouts for the Workfare Income Supplement;

(iii) implementation of the Productivity and Innovation Credit, which provides tax incentives for activities that enhance productivity such as Singapore-based research, development, and design; intellectual property acquisition and registration; investment in automation; and training costs; and

(iv) establishment of a National Productivity Fund.