Budget 2021: Govt to issue up to $90b in new bonds to finance infrastructure like MRT lines and tidal walls

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SINGAPORE - The Government will issue new bonds totalling up to $90 billion to finance long-term infrastructure that will benefit both current and future generations, under a law to be tabled in Parliament later this year.

Under the proposed Significant Infrastructure Government Loan Act (Singa), the bond issues will fund major long-term infrastructure. Prior to this, the Government had been issuing other bonds to develop the domestic debt market and meet Singaporeans' retirement needs through the Central Provident Fund (CPF).

Such bonds will allow for a fair and efficient way of distributing fiscal responsibility, said Deputy Prime Minister Heng Swee Keat in his Budget statement on Tuesday (Feb 16).

"Fair, because these payments are borne by the generations who will directly benefit from the improved infrastructure," he said.

"Efficient, because they allow us to benefit from the current low interest rate environment."

He added that President Halimah Yacob has been briefed on the proposal and has given her in-principle support.

The proceeds from the new bonds will benefit infrastructure investments with large upfront costs, including new MRT lines such as the Cross Island and Jurong Regional lines, and pumping stations and tidal walls to protect the Republic against rising sea levels.

There are also plans to issue some green bonds under Singa for climate change-related infrastructure.

Mr Heng had previously shared, including during Budget 2019, that the authorities were looking to borrow to spread out the lumpy costs of infrastructure investments across generations.

Borrowing to finance infrastructure is not new. The Government borrowed in the 1970s and 1980s to finance an increase in development expenditure in the form of the country's first MRT lines, and Changi Airport Terminals 1 and 2.

Strong GDP growth in the ensuing two decades meant that such development spending could be covered by buoyant operating surpluses instead.

The Government is required by the Constitution to keep a balanced budget over each term of office. It does not borrow to fund recurrent spending, but to finance large-scale public infrastructure.

Recurrent expenditures in areas such as healthcare, pre-school education and security are funded by recurrent revenues such as the goods and services tax (GST).

Earlier this month, researchers from the Institute of Policy Studies (IPS) had proposed that the Government issue 30-year bonds to finance development expenditure and create extra fiscal space.

The debt issued could be serviced with a combination of user fees and taxes, so that those who most directly benefit from the developments contribute to debt repayment, they said in a working paper on public debt and inter-generational equity in Singapore.

Mr Heng on Tuesday also gave the assurance that the proceeds from Singa will be used in a prudent and transparent manner.

As a safeguard, a limit of $90 billion will be set for borrowing under Singa based on the expected pipeline of major, long-term infrastructure projects over the next 15 years.

"Other safeguards will also be included in legislation, which will be open to Parliament and public scrutiny," he said, adding that more details will be given when the Bill is presented in Parliament later this year.