ASEAN Connect
By Global Economics & Markets Research

ASEAN government debt market: Increasing diversity and depth in the face of adversity

Summary

The COVID-19 outbreak has resulted in a significant deterioration of public finances for every country across the world. Many a fiscal balance were thrown into disarray, slipping into deep unprecedented deficits as governments acted decisively by issuing significant fiscal stimulus packages aimed at stabilizing the local economy and supporting the domestic job market.

One year into COVID-19, many countries have projected a significant rise in public debt issuances with the previous path to fiscal consolidation delayed by several years. This is the case for many countries across the ASEAN region as well.

In Indonesia, total public debt stood at just under 20% of GDP just prior to the outbreak of COVID-19, and is expected to rise significantly given the 3-year relaxation of the 3% of GDP fiscal deficit cap. In Malaysia, the government has raised the statutory debt limit from 55% to 60% of GDP. In the Philippines, the national government outstanding debt has jumped from under 40% as of end 2019, to about 58% as of Feb 2021.

In Singapore, after growing by an average of about 6% p.a., the total amount of outstanding government debt finally crossed the SGD 200 bn mark in early 2021. In Thailand, public debt to GDP ratio rose from just above 40% of GDP in 4Q19 to about 52% of GDP in 4Q20, with the Ministry of Finance projecting an eventual rise to 57% of GDP by end 2021.

Amidst this marked increase in public debt across the region, there is a silver lining. It is clear that governments are looking to diversify their financing options and in the process creating new investment opportunities for investors. In Indonesia, we have noticed a possible pivot into sukuk, foreign currency and green bond financing. In Singapore, the government has just passed a new SGD 90 bn Significant Infrastructure Government Loan Act (SINGA) bond programme that will add new depth to the existing Singapore Government Securities (SGS) market.

Across the region, governments have also stepped up efforts to improve debt market liquidity. All these efforts and developments add diversity to the local government debt market and signal a round of new investment opportunities for foreign investors who seek higher diversified returns.

This thematic piece aims to provide a glimpse into the public debt structure, fiscal outlook and potential new developments and opportunities in each of the respective debt market for key economies in ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand.

To fully appreciate the diversity and depth of Asia's fixed income market, we advise our readers to also refer in tandem to our earlier thematic piece on China's massive USD 17 trn debt market. For more details, kindly refer to Macro Note: "China Bond Market – Broadening its investment appeal" dated 26 Apr 2021.

Indonesia: seizing the opportunity to diversify government's financing needs

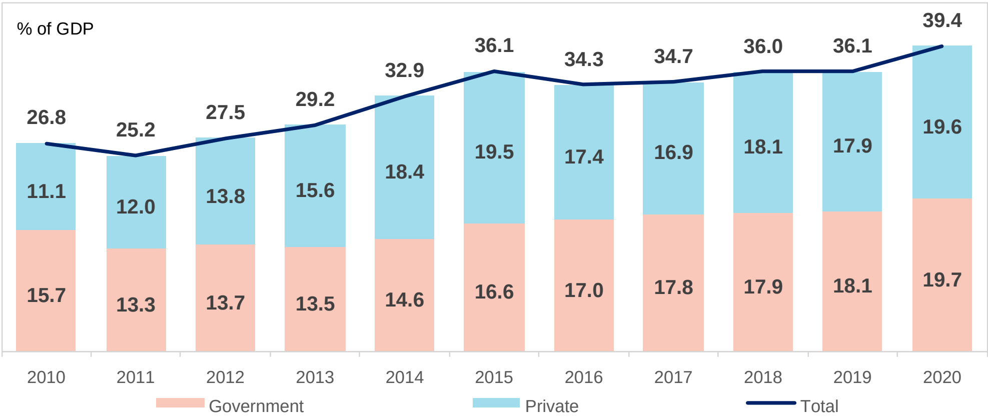
By Enrico Tanuwidjaja, Economist and Haris Handy

Total external debt was stabilizing prior to COVID-19 outbreak

Indonesia's external debt comprises of an almost equal proportion between the government and private sectors debt, with a total of more than USD400bn as of end 2020. Though nominally the numbers kept increasing since 2010, growths have been slowing for both government and private sectors debt to just below 5% in recent years. With the unprecedented COVID-19 crisis hitting the Indonesian economy for the bulk of 2020 to date, the picture is expected to change drastically for Indonesia's external debt, notably the public debt. Total public debt currently stood at around 20% of GDP and mainly comprising of longer-term debt of around 93% with small proportion of just 7% is categorized as debt-falling-due (maturity under 12 months).

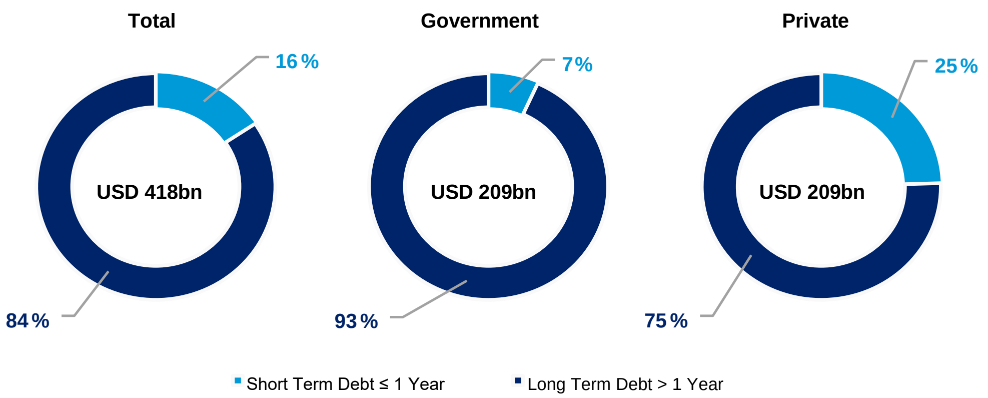
External debt composition as % of GDP

Source: Bank of Indonesia, UOB Global Economics & Markets Research



External debt by remaining maturity

Source: Bank of Indonesia, UOB Global Economics & Markets Research

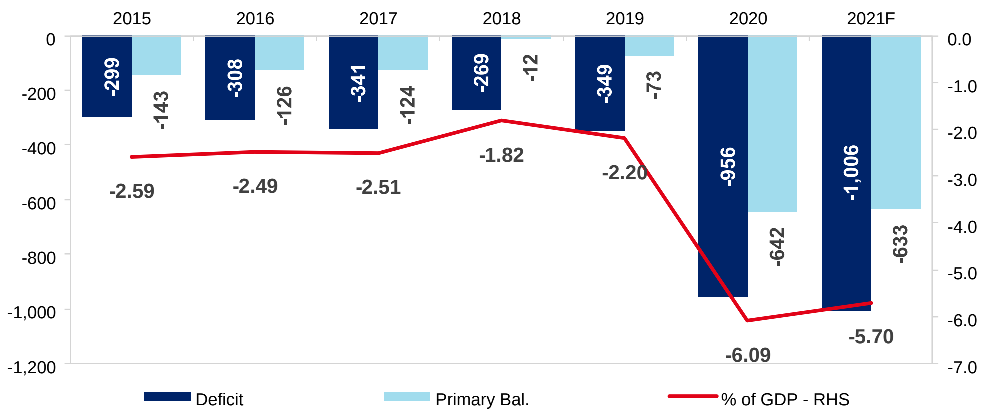


3% of GDP fiscal deficit cap relaxed for 3 years as a result of COVID-19

When COVID-19 struck, the constitutional legal limit for fiscal deficit was adjusted higher through parliamentary approval, effectively removing the 3%-over-GDP fiscal deficit cap for the next 3 years in order to allow the greater fiscal space to ensure adequate funds to finance higher healthcare and related expenditure to bring the COVID-19 crisis under control. Additionally, the higher fiscal deficit will also allow the government to initiate the economic recovery program in the aftermath of the unprecedented crisis, more commonly known as PEN program (Program Pemulihan Ekonomi Nasional). As a result, government's external financing needs have undoubtedly increased, which immediately translate into higher government bonds issuance to finance the growing deficit.

Indonesia fiscal balance

Source: Ministry of Finance, UOB Global Economics & Markets Research

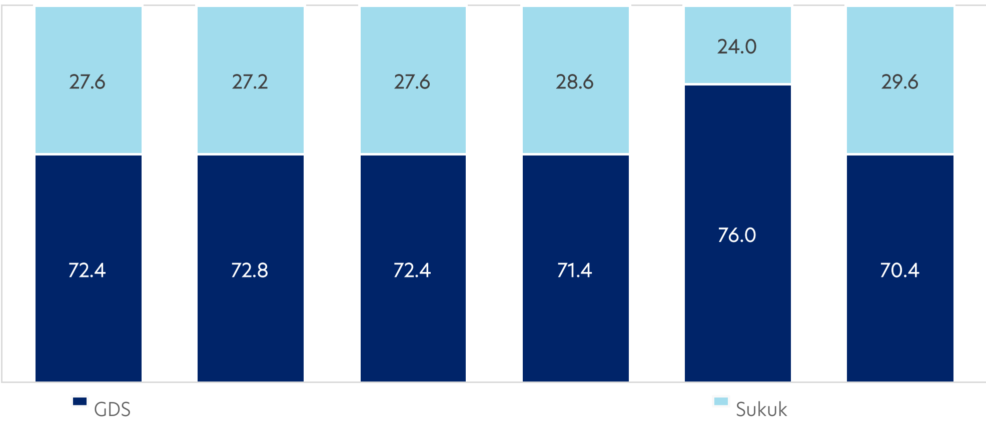


Diversify Into Sukuk Financing

An encouraging trend is that Indonesia has basically diversified its financing through more of Sukuk issuance to finance its fiscal expenditure, with the share of Syariah financing expected to rise to about 30% in 2021, up from just 24% last year. In fact, domestic Sukuk issuance has more than doubled in 2020 compared to 2016's level. This shows that more opportunity may come from the rising Islamic and Syariah-compliant financing for the Indonesian fiscal needs in years to come. The broadening of the investors base to include countries like the Middle East, Gulf Regions, or even neighbouring Malaysia could provide opportunity for this market to grow further.

Share Government Debt Securities vs. Sukuk to Total Gross Issuance

Source: Ministry of Finance, UOB Global Economics & Markets Research

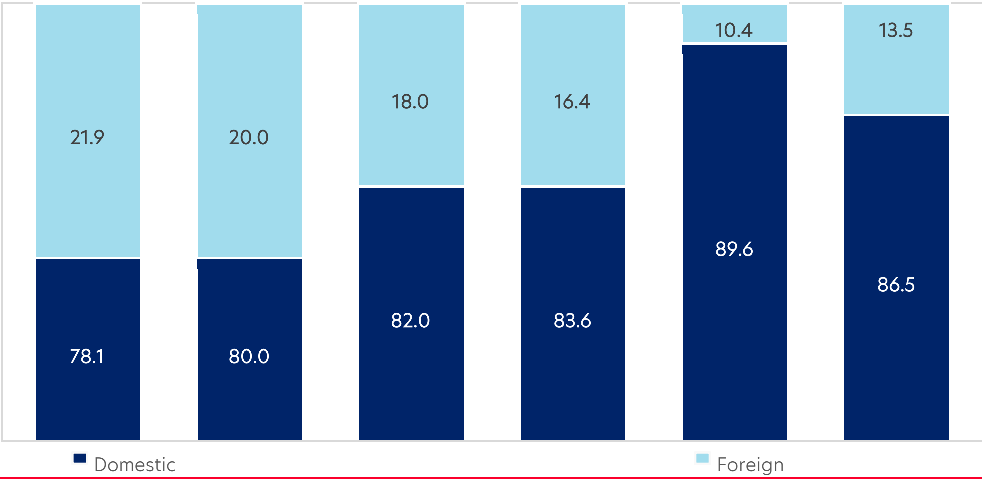


Diversify Into Foreign Currency Financing

In addition, Indonesia's financing needs are mainly financed through the rupiah-denominated securities to the tune of close to 90% from the total issuance. With such relatively low foreigndenominated currencies bonds, there could be possibilities ahead for Indonesia to take advantage of low yield environment to issue more of foreign denominated currencies government securities to broaden its fiscal financing arsenal from currencies point of view. Together with the relatively low loans proportion as argued above and abundant liquidity in the global markets, there could be opportunities to remain invested in the Indonesian sovereigns going forward.

Share of government securities by currency to total gross issuance

Source: Ministry of Finance, UOB Global Economics & Markets Research



Diversify Into Green Financing

Some anecdotal evidence also suggest that Indonesia may also venture more into green financing, which is an applauded endeavour. It all started with the signing of Paris Agreement in 2016, which transformed Indonesia into committing to reduce its 29% carbon emission by 2050; coupled with yet another ambitious target of 23% new renewable energy by 2025 (from around 9% in 2020). To meet those objectives, a huge amount of funding and investment is needed, amounting to USD247bn (according to Public Finance for Climate Change in Indonesia – Ministry of Finance – 2019). Hence, green bond issuance by energy sector SOEs can be an alternative funding to accelerate the green energy projects.

In summary, although growth in external public debt for fiscal financing needs have sharply risen due to COVID-19 crisis, Indonesia's strategy to broaden its external debt instruments and currency choices is likely to create an investment boon. Along with the timely offering of Sukuk and Green bonds to meet its financing needs, Indonesia is narrowing her gap with many other EMs in the world in attracting foreign investment into the country, which would in turn support a more sustainable growth path in the future.

Malaysia: Fiscal consolidation plan side-tracked by COVID-19

By Julia Goh, Senior Economist

The COVID-19 pandemic, additional spending under fiscal stimulus packages, and weaker revenue generation have side-tracked the Malaysian government's fiscal consolidation plans and weakened the government's debt position. Prior to the pandemic, the country's fiscal and government debt levels were already higher relative to some of its regional peers as well as peers in the same sovereign rating category. As the unprecedented global health crisis required an extraordinary fiscal policy response, the government pro-actively rolled-out several stimulus packages to cushion the impact of the crisis. In order to implement these measures, a temporary reprieve from fiscal discipline was needed. Therefore, the Parliament passed a new Act (COVID-19 Act) on 21 Sep 2020 to temporary allow the government to increase borrowings to fund the stimulus spending, and raise its statutory debt limit (as % of GDP) from 55% to 60%. The Act is in force until end-2022.

Government fiscal stimulus measures so far

The government introduced four economic stimulus packages and recovery plan worth MYR305bn (with MYR55bn direct fiscal injection) in 2020 and two additional fiscal assistance packages worth MYR35bn (with MYR17.6bn direct fiscal injection) in early 2021. This brings cumulative fiscal stimulus measures announced to MYR340bn since the start of the pandemic. Malaysia's fiscal deficit widened to 6.2% of GDP or MYR87.6bn in 2020 (end-2019: 3.4% or MYR51.5bn). The statutory debt increased by 11.6% to MYR820.7bn or 58.0% of GDP as at end2020 (end-2019: +7.1% to RM735.4bn or 48.7% of GDP), which is still below the revised legal threshold of 60%. Overall government debt stock has also risen based on two classifications:

1) Malaysia's federal government (FG) debt soared by 10.9% to MYR879.6bn or 62.2% of GDP as at end-2020 (end-2019: +7.0% to MYR793.0bn or 52.5% of GDP), marking the highest ratio since 1992. By instrument, Malaysian Government Securities (MGS) (2020: MYR436.4bn or 49.6% share; 2019: MYR394.1bn or 49.7% share) and Malaysian Government Investment Issues (MGII) (2020: 375.3bn or 42.7% share; 2019: MYR338.8bn or 42.7% share) made up the majority of total debt with a combined share of 92.3% (or MYR811.7bn). Balance comprises of Malaysian Treasury Bills including Islamic Treasury Bills (MTB & MITB) (1.8% or MYR15.5bn; 2019: 0.6% or MYR4.5bn), offshore borrowings (3.2% or MYR28.3bn; 2019: 3.6% or MYR28.8bn) and Government Housing Sukuk (2.7% or MYR24.1bn; 2019: 3.4% or MYR26.8bn).

   Bulk of the FG debt was domestic debt which accounted for 96.8% or MYR851.3bn (end2019: 96.4% or MYR764.2bn), while outstanding offshore debt stood at 3.2% of total or MYR28.3bn (end-2019: 3.6% or MYR28.8bn), which is below the MYR35bn ceiling stipulated under the External Loans Act 1963. Foreign currency debt was largely denominated in USD (54.0%), Japanese Yen (45.4%) and other currencies (0.6%).

   Most of FG debt is financed through local institutions and domestic savings. Domestic holdings of the FG debt stood at 73.6% as at end-2020, against foreign holdings of 26.4%. Half of the foreign ownership of Malaysian government debt comprises long-term investors such as other central banks and governments (8.1%), global pension funds (4.1%) and insurance companies (0.9%). Other half of foreign holders were fund managers (8.8%), banking institutions (3.7%), as well as bilateral and multilateral institutions and others (0.8%).

   Primary domestic holders of government bonds were banking institutions (32.8%) and long-term institutional investors such as Employees Provident Fund (25.0%), insurance companies (4.7%) and Retirement Fund (Inc.) (2.8%). Other domestic investors include development financial institutions (1.9%), non-bank financial institutions (0.1%) and others (6.3%). To ensure sufficient liquidity and support for the domestic bond markets, Bank Negara Malaysia (BNM) extended the flexibility for banking institutions to use MGS and MGII to meet the statutory reserve requirement (SRR) compliance until 31 Dec 2022. This flexibility was previously announced on 5 May 2020 and applicable to only 31 May 2021.

2) Overall debt and liabilities (including committed guarantees, 1MDB and other liabilities obligations) rose by 8.3% to MYR1.3tr or 89.2% of GDP (end-2019: MYR1.2tr or 77.4%). While the 1MDB and other liabilities obligations recorded a decline in 2020, the committed guarantees increased by 10.5% to MYR179.2bn (from MYR162.1bn in 2019), predominantly attributed to larger government guaranteed debt for public transport infrastructure projects such as Mss Rapid Transit (MRT), Light Rail Transit (LRT), Pan Borneo Highway and East Cost Rail Link (ECRL).

Mixed views on sovereign ratings outlook

Consequently, weaker fiscal settings and fluid political landscape prompted actions from two international rating agencies including Fitch Ratings that lowered Malaysia's sovereign rating to BBB+ with a stable outlook (from A- with negative outlook) in Dec 2020. S&P Global Ratings revised its outlook on Malaysia's sovereign ratings to negative (from stable) while keeping the credit rating at A- (on Jun 2020). However, earlier this year (on Jan 2021), Moody's reaffirmed Malaysia's sovereign ratings at A3 with a stable outlook. As such, the views across the rating agencies diverge possibly due to the balance of risks and strengths of the country's economic and political outlook.

The negatives highlighted by the rating agencies include the pressure on fiscal settings, which are exacerbated by the pandemic. The rising debt stock (as a % of GDP) weakens the credit profile while the build-up of contingent liabilities may pose risks if it crystallises. Given the impact of COVID-19 on government revenue collection, Malaysia's debt service charges (DSC) to revenue ratio rose to 15.3% in 2020 (from 12.5% in 2019), marking the highest level since 1993. Meanwhile, the DSC-to-GDP ratio rose to a 17-year high of 2.4% in 2020 (from 2.2% in 2019). The overall tax revenue-to-GDP ratio has also been trending lower since 2013 to 10.9% in 2020 (from 12.0% in 2019). Domestic political uncertainties are added downside risks to the government's fiscal position given that it adds uncertainty in policy making and may delay reforms to strengthen the fiscal position. However, these are balanced against the positives which are Malaysia's strong external position, stable long-term growth prospects, institutional strength, and established monetary policy credibility. Markets are watching S&P's next sovereign rating review for Malaysia in Jun 2021.

Despite the potential fiscal and sovereign downgrade risks, foreign flows into domestic government bonds remained robust. Foreign holdings of Malaysian government bonds (MGS & MGII) rose by MYR4.4bn (Feb: +MYR5.6bn) to MYR215bn (or 25.0% of total outstanding) in Mar 2021, marking the highest share since Apr 2018. In 1Q21, cumulative foreign inflows into MYRdenominated bonds totalled MYR16.7bn (2020: +MYR18.3bn). A positive development was when FTSE Russell (FTSE) removed Malaysia from its Watch List and retained the country in its World Government Bond Index (WGBI) on 29 Mar 2021 (details in link). This lends further support for Malaysia's government bonds. The recent issuance of the government's USD Sustainability Sukuk was oversubscribed by 6.4 times with strong demand resulting in the lowest ever yield and spread for a USD sukuk issuance by Malaysia.

Given robust demand for the country's government bonds from local and foreign investors, continuous efforts have been made to improve liquidity and maintaining balanced issuances across the curve. This includes larger outstanding sizes per issuance to improve overall trading liquidity and better facilitate index tracking activity as number of issuances are further consolidated. Issuances are also spread out through the year with 3-4 issuances per month with exception of December, taking into consideration the market's ability to absorb additional supply. Additional issuances will also be financed via short-to-medium term issuances while private placements will be allocated to all long-term issuances to support the long end of the curve. BNM has addressed concerns of foreign investors when accessing Malaysian government bond market by improving secondary market bond liquidity and enhancing the foreign exchange market structure and liquidity via the Appointed Overseas Office (AOO) programme and expanding the dynamic hedging programme (details in link).

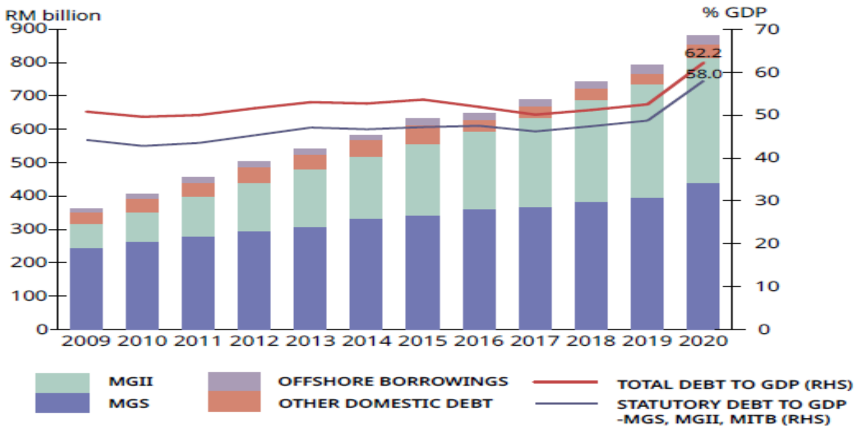
Lingering fiscal pressures

Going forward, the fiscal and debt trajectory largely depends on the pandemic, economic outlook, degree of additional fiscal support (if needed), and availability of alternative non-fiscal and monetary measures. Following the additional stimulus announced under the sixth fiscal package (PEMERKASA) worth MYR20bn, the government said the targeted fiscal deficit has been revised up to 6.0% of GDP (vs. earlier target of 5.4%) and the statutory debt is expected to reach 58.5% of GDP (vs. earlier target of 58.0%) in 2021. The government continues to expect a robust GDP growth of 6.0% - 7.5% against an inflation outlook of 2.5% - 4.0% in 2021, which helps to keep the fiscal ratios manageable.

Under the medium-term fiscal framework outlined in the budget, the government targets to achieve a fiscal deficit of 4.5% of GDP in 2021-2023. The government has not officially revised medium-term fiscal projections. Nevertheless, the government said they remain committed to fiscal consolidation and are considering tax reforms to strengthen the government's revenue base. No timeline has been mentioned and remains unclear when such reforms will be implemented. However, the statutory debt threshold will be lowered back to 55% of GDP from 2023 onwards, which infers that the economy needs to achieve strong GDP expansion by 2022 while the government may need to implement some form of debt restructuring alongside major fiscal policy reforms before the temporary measures under the COVID-19 Act lapses by end 2022.

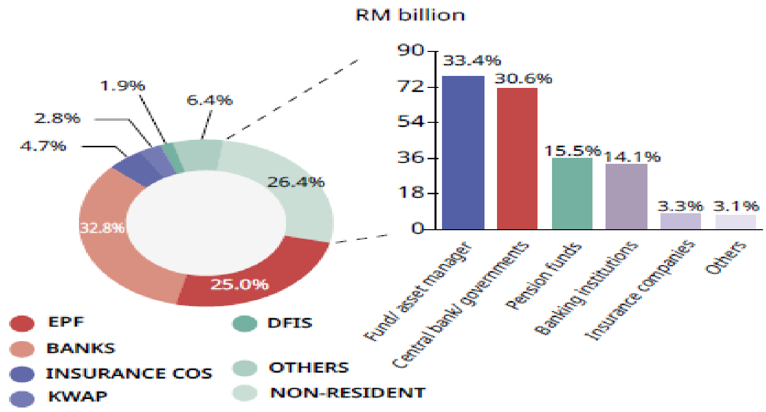
Statutory debt stood at 58.0% of GDP as at end-2020

Source: Ministry of Finance, UOB Global Economics & Markets Research



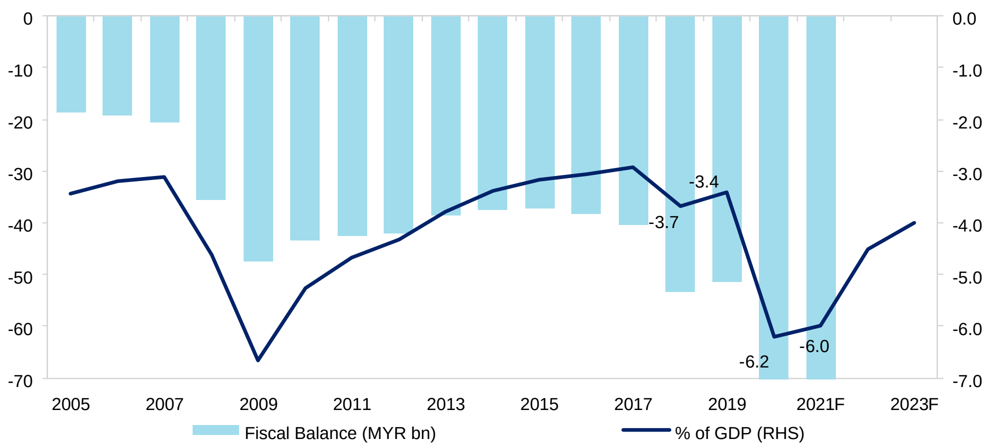
Federal government debt by holder, 2020

Source: Ministry of Finance, UOB Global Economics & Markets Research



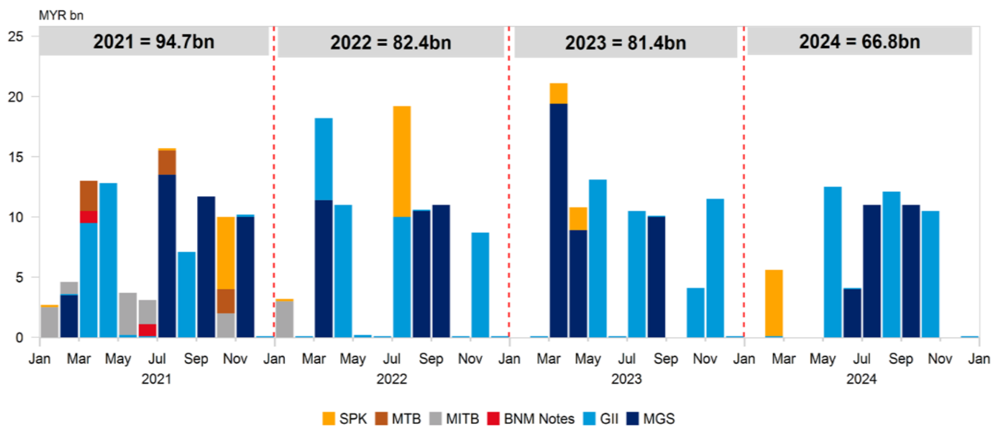
Government expects fiscal deficit to reach 6.0% in 2021

Source: CEIC, Ministry of Finance, UOB Global Economics & Markets Research



Malaysian debt maturity profile

Source: BNM, Macrobond, UOB Global Economics & Markets Research



Philippines: Covid-19 pushes government debt to highest in over a decade

By Jasrine Loke, Economist

Ongoing rise in national public debt

The Philippines' national government outstanding debt jumped by 26.7% to PHP9.8tr or 54.6% of GDP as at end-2020 (end-2019: +6.0% to PHP7.7tr or a record low of 39.6% of GDP), marking the highest ratio since 2006 when it was 58.8% and remaining below the peak of 71.6% in 2004. It increased further by 6.2% to PHP10.4tr (or 58.0% of 2020 GDP) as at end-Feb 2021. This more than a decade-high government debt-to-GDP ratio was primarily due to higher funding requirements to combat the outbreak of COVID-19 amid a sharp decline in output and government revenue. The Philippine government unveiled PHP1.3tr of stimulus to stem economic fallout from the COVID-19. The rise in the Philippine public debt was also in line with the surge in that of global and regional economies.

Majority of the debt was financed through local borrowings (end-2020: 68.3%; end-Feb 2021: 70.8%) while foreign lenders contributed less than one-third (end-2020: 31.7%; end-Feb 2021: 29.2%), implying manageable currency risks to debt repayment. More than half of the domestic outstanding debt (~55%) was issued on a long-term basis, followed by medium-term maturities (~30%) and short-term credit (~15%). Of the total domestic debt, Treasury bond (TB) issuances made up the lion share of more 85% (or PHP5.7tr at end-2020 and PHP5.8tr at endFeb 2021), consisting of regular TBs (~PHP2.5tr with 7-, 10- and 20-year tenures taking up the biggest share), special retail TBs (~PHP2.2tr, mostly concentrating in 5-year maturities), special benchmark TBs with 10-year tenure and above (~PHP1.0tr), and other special TBs (~PHP82bn). Treasury Bills accounted for less than 15% (or PHP0.9tr at end-2020 and PHP1.0tr at end-Feb 2021) of total domestic debt.

Local players were the major holders of Philippine government securities with a share exceeding 95% since mid-2019. Foreign ownership of Philippine government bonds has also risen to 2.9% of total outstanding government bonds in 4Q20 from its lowest level since the data begun, at 1.5% in 3Q20. This could partly because of the country's relatively higher bond yields offered at above 2.0% for 3-year duration and above 2.5% for 5-year tenure and above, in a low interest rate environment globally.

Hence, the national public debt is deemed financeable given the country's big domestic savings pool (IMF's estimate: 20.6% of GDP in 2020, 25.3% in 2019, 19.7% in 2000s, and 18.5% in 1990s) boosted by remittances, business process outsourcing (BPO) earnings, and decent GDP growth of 6.4% on average over the pre-pandemic 10 years. In addition, the debt portfolio also reflects minimal exposure to interest rate volatility as just 10% of the debt stock is subject to rate refixing. The tax-to-GDP ratio remained stable at 14.0% during the pandemic year of 2020 (2019: 14.5%; 2018: 14.0%; 1998-2017: average 12.5%), suggesting still strong ability to generate revenue for servicing the national debt.

Regarding the government's total guaranteed obligations, the contingent liabilities contracted 6.2% to PHP458.3bn as at end-2020 (end-2019: +0.2% to PHP488.7bn) and declined further by 7.8% to PHP446.7bn as at end-Feb 2021. As a percentage to GDP, the contingent debt-to-GDP ratio remained at record low level of 2.5%-2.6%. This brought the nation's overall public debt including contingent liabilities to approximately 60% of GDP, relatively lower than that of some regional peers.

Overall government debt service payment surged by nearly 50% to PHP1.3tr (or 44.2% of total government revenue) in 2020 (2019: +8.6% to PHP0.8tr or 26.9% of revenue), mainly due to higher domestic maturities as well as bond exchange and external amortization. Thereafter, the debt service payment reduced by 12.9% y/y to PHP253.1bn in the first two months of 2021, with principal and interest payment totalling PHP174.9bn and PHP78.2bn respectively.

A Rough Road For Fiscal Consolidation Resuming From 2022

The government has pledged to continue its supportive measures to accelerate the economic recovery this year from the global health crisis. With this, the nation's fiscal gap is expected to widen further to record high of PHP1.8tr or 8.9% of GDP in 2021 (from PHP1.4tr or 7.6% of GDP in 2020 and PHP0.7tr or 3.4% of GDP in 2019). To partly finance this budget shortfall and large debt maturities totalling PHP1.5tr (based on Bloomberg data), the government will borrow a gross amount of PHP3.03tr in 2021, with a borrowing mix of 85% (PHP2.58tr) coming from the domestic debt market and 15% (PHP442.4bn) from foreign borrowings. The issuance of fixedrate Treasury bonds will remain the key borrowing tool, making up PHP1.5tr or 50.7% of total gross borrowings, followed by other domestic bonds (PHP1.0tr or 33.1%) and foreign currencydenominated bonds (PHP0.3tr or 9.5%). These additional borrowings would further jack up the public debt to ~PHP11.5tr or 57.8% of GDP by end-2021 (from PHP9.8tr or 54.6% in 2020).

The Development Budget Coordination Committee (DBCC) aims to resume its fiscal consolidation path in 2022 once pandemic risks abate. It targets to reduce its budget deficit at a very measured pace to PHP1.6tr or 7.3% of GDP. The fiscal gap is still huge as compared to pre-pandemic years, and will incur slightly smaller borrowing amount than that of in 2021. Lingering uncertainties surrounding the COVID-19 and vaccines do not justify a dramatic withdrawal in policy support at this juncture, in our view. There are also about PHP930bn of government bonds maturing next year. Hence, the DBCC projects the government debt to increase further to ~PHP13tr or 60.4% of GDP in 2022, which is slightly above the 60% internationally-recommended debt threshold. That said, the government reiterates its commitment to continuously implement fiscal reforms (Comprehensive Tax Reform Program, CTRP) that will benefit the country in the long term, and keep its public debt at a sustainable and responsible level by 2022.

Vaccination, policies post-2022 elections key determinants of fiscal consolidation

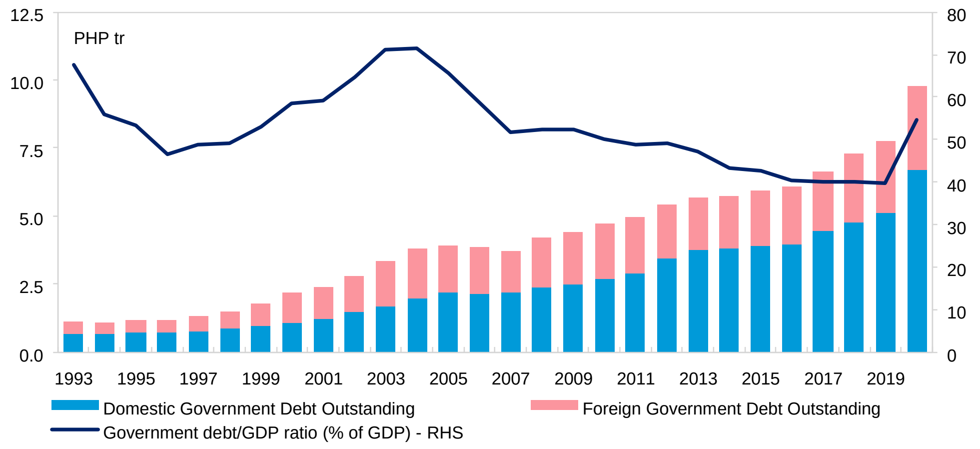
Despite the government starting to re-consolidate its finance position albeit modest in 2022, we see a successful and effective mass vaccination program as well as economic policies beyond the 2022 Presidential elections being wildcards for the nation's medium-term fiscal framework. Slow vaccine rollout amid new virus variants has delayed the removal of movement restrictions as compared to regional peers, adding headwinds for the domestic demand-led recovery. The Duterte administration has also been reluctant to unveil additional fiscal stimulus that will further increase the fiscal deficit and potentially trigger a ratings downgrade.

Meanwhile, all three international rating agencies are aware of the Philippines' surging government debt pile, larger fiscal deficit, as well as dimmer growth prospects in the short term, keeping their investment grade rating for the Philippine sovereign bonds. Fitch Ratings in Jan 2021 affirmed the Philippines' long-term foreign currency issuer default rating at "BBB" with a "Stable" outlook. This followed after Moody's Investors Service maintained its "Baa2" rating with a "Stable" outlook for the country in Jul 2020, and S&P Global Ratings, which kept its "BBB+" long-term credit rating with a "Stable" outlook for the Philippines in May 2020.

On the political front, the Philippines is due to hold its Presidential election in May 2022, in which Duterte cannot run following the constitution's one-term limit. Half of the 24 senators and all the House of Representatives are also up for re-election at the same time. As such the medium-term fiscal trajectory will depend on the policies and reforms of the next President and government.

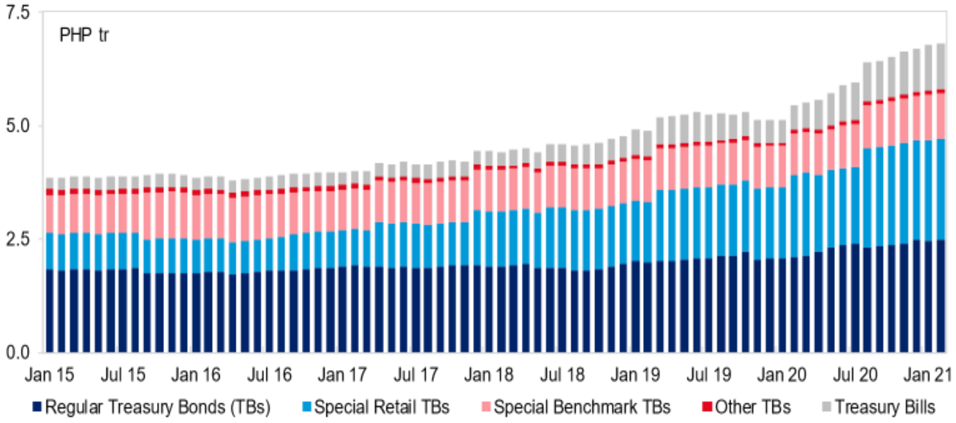
Government/GDP ratio at the highest level since 2006

Source: CEIC, UOB Global Economics & Markets Research



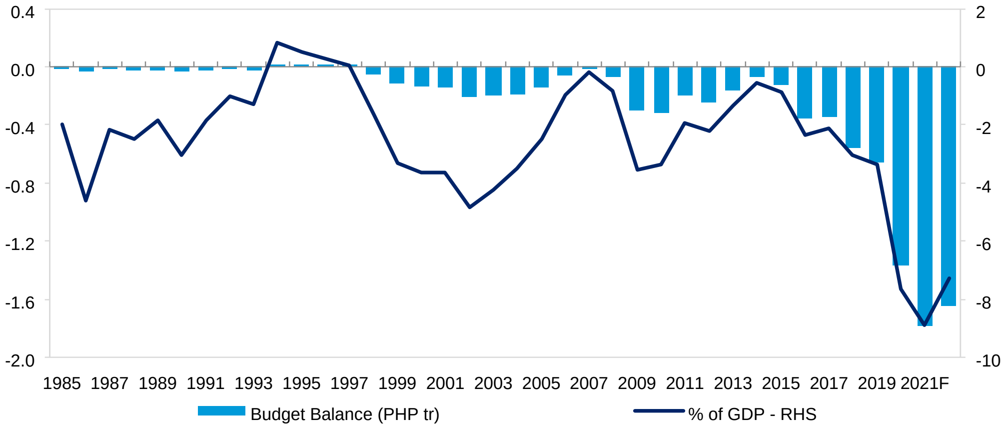
Government securities outstanding by instrument

Source: CEIC, UOB Global Economics & Markets Research



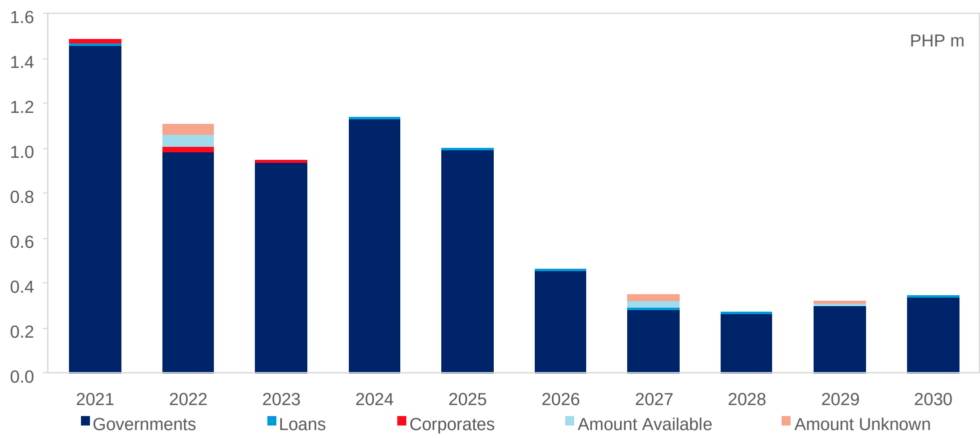
Fiscal deficit expected to hit new record high in 2021

Source: CEIC, UOB Global Economics & Markets Research



Philippine debt maturity profile

Source: Bloomberg, UOB Global Economics & Markets Research



Singapore: SGS market enters exciting phase of growth with new infrastructure bonds

By Victor Yong, Interest Rate Strategist

Ongoing Rise In National Public Debt

Singapore's government bond market (SGS) is governed by the Government Securities Act. This legislation prohibits the government from using SGS issuance proceeds to fund ongoing expenditures. Instead, the SGS proceeds are ring-fenced and managed on a long term basis.

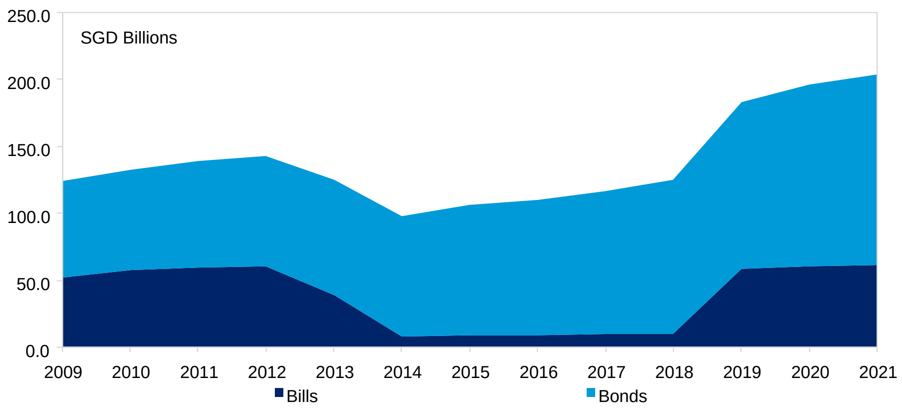
This structure is set to change now that Parliament has passed the SINGA Act on 10 May 2021. Proceeds from SINGA bonds (SGS Infrastructure, SGSIF) will be funnelled towards qualified infrastructure projects but the new SGSIF bonds will rank pari passu with existing SGS Market Development (SGSMD) bonds. For more details, kindly refer to [Rates Strategy: Understanding SINGA bonds](), dated 08 Apr 21.

What Is The Current Size Of The SGS Market?

As of end March 2021, the total notional amount outstanding for Singapore government bills and bonds stands at SGD 203.2 billion, split 30% in bills and 70% in bonds. Year on year changes in bond notional outstanding has averaged at 6.0% for the decade between 2010 to 2020 and the variance around this mean has been relatively minor compared to other bond markets because Singapore does not issue debt to fund budget deficits.

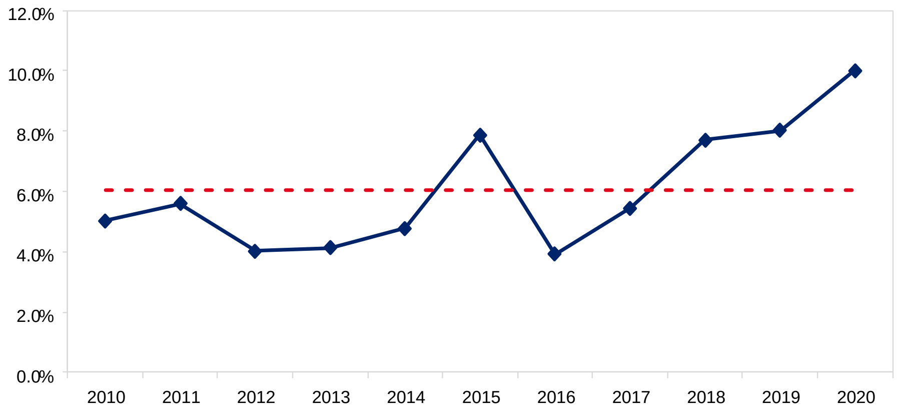
SGS (Bills + Bonds) outstanding

Source: Bloomberg, UOB Global Economics & Markets Research



Net SGS Bond issuance (YoY % change)

Source: Bloomberg, UOB Global Economics & Markets Research



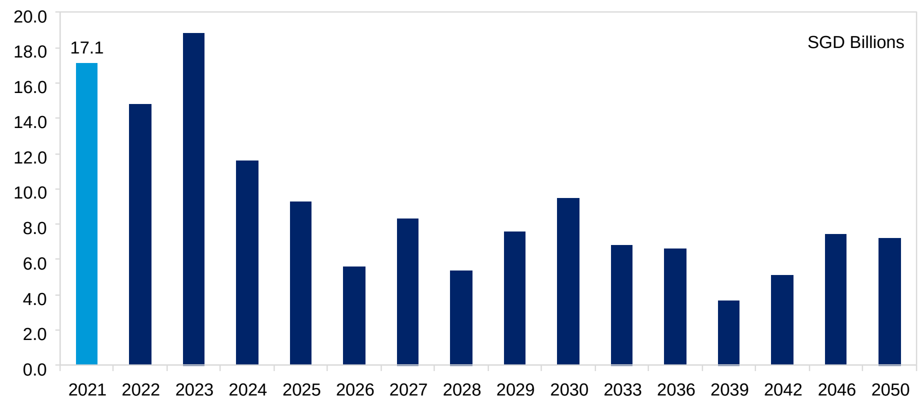
Since debt issuance has been decoupled from fiscal balance outcomes by law, the growth rate in annual SGSMD net issuances is largely determined by market demand for fixed income assets as well as tracking developments in global bond market such as how central banks are managing their balance sheets.

What Is The Current Maturity Profile Of The SGS Market?

For 2021, there will be SGD 17.1 billion of SGSMD maturing. The maturity profile peaks in 2023 at SGD 18.8 billion, and declines to an average of SGD 7.2 billion thereafter. SGSMD issuances have tended to smooth out the notional outstanding in the longer maturities in response to market demand. This helps to minimize scarcity related premiums and structural kinks in the SGSMD yield curve. SGSIFs are likely to be issued for longer maturities (i.e. > 10-year tenors), but since the Monetary Authority of Singapore (MAS) has already stated that SGSMD and SGSIF issuance will be managed holistically, we expect that SGSMD issuances will refocus on the short to medium maturities such that the overall maturity profile remains smoothed out beyond the near term maturity peak.

SGS Bond maturity profile

Source: Bloomberg, UOB Global Economics & Markets Research

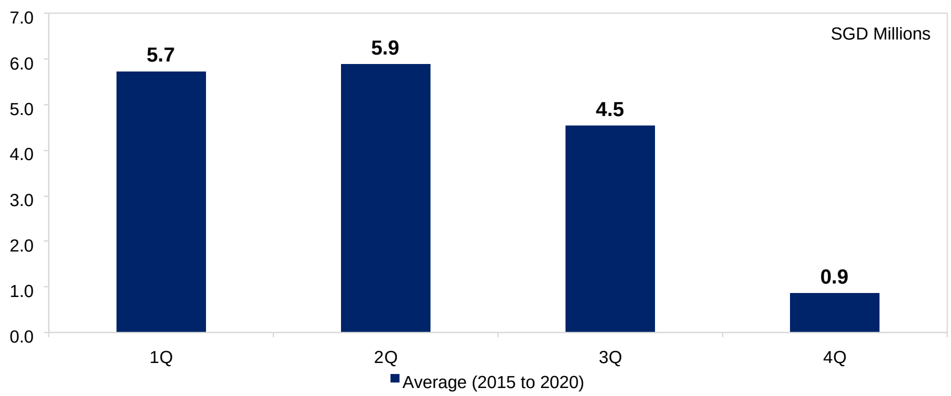


How will the new SGSIF affect future issuance trends?

SGSMD issuances have historically been more duration (DV01) heavy in the first half of the calendar year. Between 2015 and 2020, the average gross DV01 stands at SGD 5.7 and SGD 5.9 million for the first and second quarters respectively but declines to SGD 4.5 and SGD 0.9 million respectively in the third and fourth quarter. The inaugural SGSIF is expected to be unveiled in 4Q 2021 which will mean that we are likely to see a heavier duration supply compared to the historical average this year, but it remains to be seen if a 4Q SGSIF auction will become a permanent feature going forward since investors' demand tends to fade into the end of year holidays and book closures.

Gross SGS Bond DV01 supply by quarter

Source: Bloomberg, UOB Global Economics & Markets Research



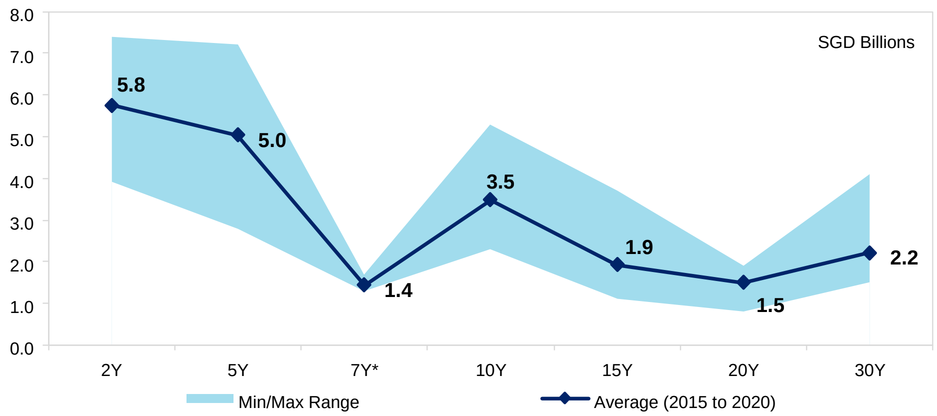
Average SGSMD auction size between 2015 and 2020 across the curve has been highest for the 2- and 5-year benchmark tenors due to demand driven by regulatory and liquidity considerations. This is followed by the 10-year tenor which tends to see the greatest variety of buyer profiles. Auction size for the 30-year tenor are higher on average than the 15- and 20-years since demand for high rated and long maturity SGD debt tends to surpass supply. The 7-year* tenor is unique because it continues to see auction supply (as part of the maturity profile smoothing objective) even after the tenor was discontinued as a benchmark back in February 2011.

Recent SGSMD issuance trends do not display a consistent pattern in terms of altering the market's maturity profile. In 2020, the largest notional Y/y increases were in the 2- and 30-year tenors, while in 2019 the main increases were in the 10- and 15-year segments. In 2018, the 5-year tenor was the main focus after a supply draught in 2017 where all tenors except for the 15-year experienced a Y/y decline.

Singapore's unique government bond market will be evolving to include a new category of bonds (SGSIF) in 2021. Based on the premise of holistic supply management by MAS, there may be minimal impact from SGSIF on the average (2010 to 2020) historical growth rate of net government bond issuances which stands at 6%. But a reorganization of future bond auction calendars could result in variance from historical DV01 supply profile which is currently weighted towards the first half of each calendar year.

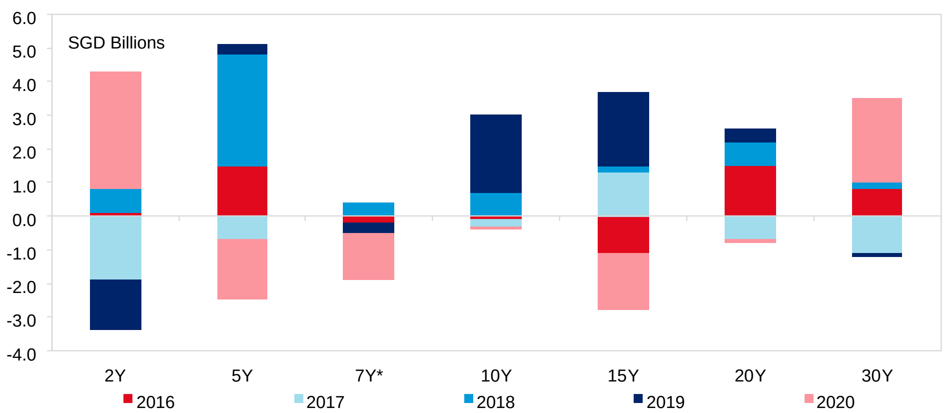
Gross SGS Bond issuance by tenor

Source: Bloomberg, UOB Global Economics & Markets Research



Gross SGS Bond issuance (YoY change)

Source: Bloomberg, UOB Global Economics & Markets Research



Thailand: Government commits that debt to GDP ratio will not rise above 60% in coming 5 years

By Barnabas Gan, Economist

Background

Thailand's debt structure remains healthy in 2021. Public debt to GDP has risen from 41.2% in 4Q19, to 51.8% in 4Q20. Notwithstanding the climb, public debt is below the mandated 60% level as stipulated by Fiscal Responsibility Act. The Ministry of Finance has cited that the ratio will be at around 57% of GDP at the end of 2021, accounting for the THB 1.0 trillion emergency loan decree.

Public debt structure

The accumulation in public debt has accelerated in recent months. Total public debt outstanding amounted to THB8.42 trillion in February 2021, clocking a multi-year high growth rate of 19.8% y/y and just shy of 20.3% y/y seen in August 2009. Government debt, which includes funding for government projects, infrastructure development, refinancing programmes and the stimulus packages seen to-date, made up 87.0% of total public debt. The remainder is made up of State Enterprise Debt (9.5%), Special Financial Institutions Guaranteed Debt (3.4%) and Government Agency Debt (0.1%).

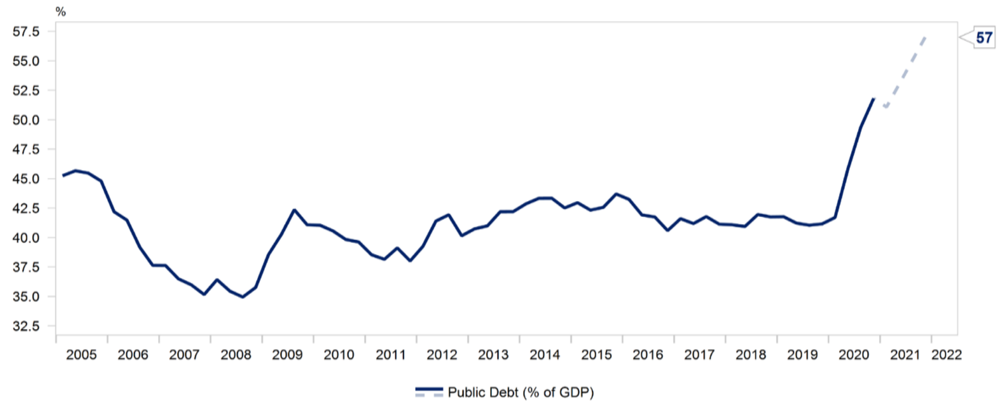
Still, the accumulation of public debt has accelerated in recent months. Total public debt outstanding amounted to THB8.42 trillion in February 2021, clocking a multi-year high growth rate of 19.8% y/y and just shy of 20.3% y/y seen in August 2009. Government debt, which includes funding for government projects, infrastructure development, refinancing programmes and the stimulus packages seen to-date, made up 87.0% of total public debt. The reminder is made up of State Enterprise Debt (9.5%), Special Financial Institutions Guaranteed Debt (3.4%) and Government Agency Debt (0.1%).

Encouragingly, Thailand's public debt is concentrated largely in long-term debt. By definition, long-term debt has an original maturity beyond a year. As of February 2021, 93.5% of total public debt is positioned in long-term debt, thus effectively spreading the government's repayability burden across a longer horizon. Short term debt, which is due in 12 months or less, only accounts for 6.5% of total public debt. Moreover, Thailand's international reserves remain healthy at US$247.4 billion (THB 7.76 trillion), translating into 14.1 months of short-term debt cover.

Thailand's external indebtedness is low, given that its debt structure is dominated by domestic debt at over 98.0% in February 2021. Domestic debt clocked THB8.3 trillion in the above mentioned period, while external debt was only THB143.0 billion. However, there has been an acceleration in the accumulation of domestic debt, with domestic debt growing 21.1% y/y in February 2021, the fastest pace since November 2009.

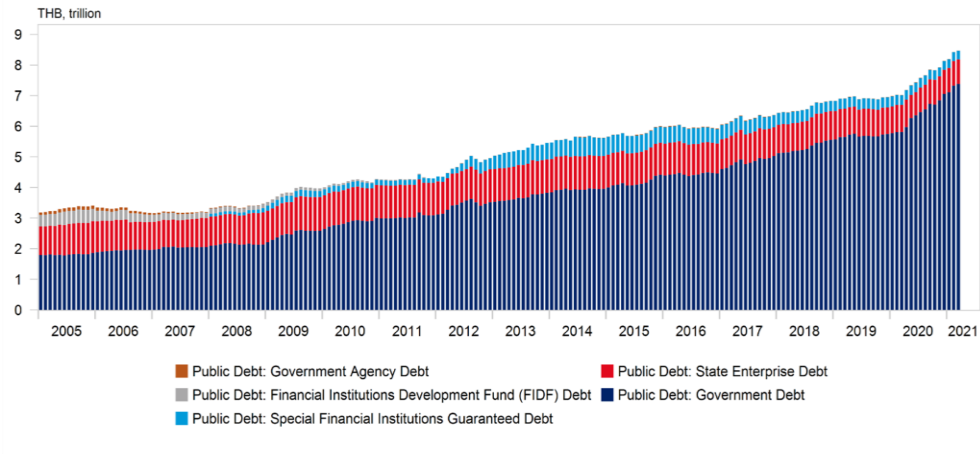
Debt to GDP Ratio is expected to climb to 57% in 2021

Source: Macrobond, UOB Global Economics & Markets Research



Thailand's Public Debt is dominated by Government Debt

Source: Bloomberg, UOB Global Economics & Markets Research



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