Media Coverage

Infrastructure plans help capital markets grow

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Credit is the financial oil that enables economies and commercial enterprises to operate smoothly. With the onslaught of new infrastructure projects coming online across Asia the development of local capital markets has become of vital importance.

Two infrastructure projects in Singapore could trigger more capital markets activity -- the North-South Corridor, which will connect the north of the island to the city center via roads, cycling paths and walkways, and the Singapore-Kuala Lumpur High Speed Railway.

A strong local currency capital market is important for Singapore to diversify credit sources -- creating an alternative to bank funding, and helping to recycle savings and investments from institutional fund managers, insurance and pension funds into development projects. Capital markets help ensure that long-dated assets are funded by long-term investors, and that credit flows remain stable in times of volatility.

Infrastructure financing has been recognized as a key potential driver for achieving this objective, but is still in its infancy in Asia. With its strong fiscal position, Singapore has historically self-funded most of its projects. As a result, project bonds and other institutional investments in infrastructure finance have played only a small part in capital markets activity.

At $92 billion, Singapore’s local currency debt market is also relatively modest in size, equivalent to about 10% of total domestic bank assets, according to the Asian Development Bank. Having this large banking base means that there has historically been sufficient demand in the loan markets without needing to turn to the bond markets.

While it is likely that traditional routes of bank debt and government financing will remain the dominant credit sources for Singapore’s infrastructure development, the government has recognized the need for more projects - or the companies involved in building them -- to turn to the capital markets.

In addition, banks are facing stricter regulatory and capital requirements that may temper their lending appetite, particularly in longer maturities. This means that projects like the North-South Corridor and the high speed railway represent an opportunity for infrastructure companies, investors and capital markets to work together.

Regulators have been laying the framework for the development of the project bond market. For example, the Monetary Authority of Singapore’s Asian Bond Grant aims to broaden the issuer base in Singapore’s bond markets and to promote the country as a regional financial hub. For qualifying Asian issuance, the grant will help to offset up to 50% of one-time issuance costs such as international legal fees, arranger fees and credit rating fees.

The inclusion of Asian issuers under the program is important, because it is likely that a meaningful amount of the primary or supporting contractual work for the construction of Singapore’s infrastructure pipeline will be assigned to entities within the region. If these entities require extra capital to undertake the project, then the grant will help reduce their costs for tapping the capital markets for the first time, and will provide a compelling incentive to raise funds in Singapore.

Regaining lost footing

As recently as a decade ago, Singapore was a popular listing destination for small Chinese companies. However, after a series of accounting and other irregularities led to subsequent share price falls and delistings, the volume of Chinese initial public offerings dropped significantly.

Infrastructure presents opportunities to deepen Singapore's capital markets and regain its footing in foreign listings. China Construction Bank recently signed a memorandum of understanding with International Enterprise Singapore, under which it will provide $30 billion worth of financing services to companies in Singapore and China investing in China's Belt and Road Initiative infrastructure projects.

The bank followed this up by listing its first 1 billion yuan ($145.2 million) BRI infrastructure bond on the Singapore Exchange. Such deals will help to promote the city state's capital markets to Chinese companies. Currently, there are 120 Chinese companies and 103 yuan bonds listed on the Singapore Exchange.

Other efforts include the formation of Clifford Capital in 2012. Funded by Temasek, a Singapore state investment agency, and other financial institutions, Clifford Capital's mandate is to promote the role of Singapore-based companies in infrastructure projects -- both within the country and abroad. Companies must be listed or incorporated on the Singapore exchange and have local head offices to be eligible for funding.

While the MAS has been successful in its efforts to develop domestic capital markets, there has been little project bond activity, reflecting a widespread Asian preference for financing projects through the conventional project finance loan market or the dollar, yen and euro bond markets.

This puts Singapore in pole position to spearhead the development of the project bond market and promote itself as a regional hub for raising infrastructure financing.

Challenges remain. While investors have over time become savvier and more accepting of complex credits (such as high yield and hybrid instruments) there is not yet broad acceptance of amortizing structures, or of greenfield and construction risk.

Nevertheless, Singapore is an infrastructure project haven, with a pipeline of well-developed projects that provides significant business and investment opportunities for companies and investors. There is every reason to believe that these projects are a natural fit for large institutional investors, such as insurers and pension funds, for which longer-term investments in high quality infrastructure assets with predictable revenue generation make logical sense.

The MAS has been collaborating with the industry to ensure that there is transparency in the market, not only to promote bond issuance but to ensure diversification of risks so that portfolio managers can confidently allocate infrastructure holdings.

Good infrastructure is the key indicator in identifying new urban renewal investment and development prospects. Existing and emerging infrastructure, particularly transport and community amenities, leads to population growth and consequently commercial and capital growth.

To achieve all that, Singapore needs credit and capital, which it is not short of. It already has a wealth of experience as a regional finance hub. All the elements are in place -- investor interest, infrastructure demand and incentives that make Singapore compelling as a capital markets destination.

A closer look reveals that the insurance and project finance industries are maturing and looking to expand. The Asian Development Bank says there is an annual requirement for $1.7 trillion for infrastructure investment in Asia (amounting to a cumulative $22.6 trillion through to 2030). China's BRI presents even more opportunities for economies around the region.

Throw in the Asian bond grant and other MAS programs and there is a strong case for Singapore's potential success as an infrastructure finance hub. Capital market development is all about timing. For Singapore, right now is as good as it gets.

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