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FinancialQuotient

What are infrastructure bonds?

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WHAT DOES IT MEAN?

Infrastructure bonds refer to bonds issued to fund infrastructure projects. The bonds are usually long term in nature, big in issuance size due to the nature of infrastructure projects, and are accessible to institutional and individual investors.

Regular coupon payments and low default risk are usually associated with these bonds as the usual issuers include central governments, municipals and quasi-government agencies involved in these projects.

WHY IS IT IMPORTANT?

Infrastructure bonds have become more visible here recently given the increasing demand for public infrastructure projects.

A few prominent examples include bonds issued by statutory boards such as the Housing Board, Land Transport Authority, national water agency PUB and Singapore Labour Foundation.

The total amount outstanding of these bonds is estimated to be $26.7 billion, about 22 per cent of the outstanding Singapore Government Securities as of March this year.

The risk and return trade-off of these infrastructure bonds is quite balanced for investors who want to have a diversified portfolio. Bonds usually offer good diversification benefits to be added to the usual equity investment.

As the issuers of infrastructure bonds are usually statutory boards, they have relatively low risk, given that the Singapore Government maintains a triple-A credit rating by major international rating agencies. These bonds offer a slightly higher return than that of Singapore Government Securities with similar maturities.

In the recent Budget, it was announced that infrastructure bonds will be the main source of funding for major projects such as the National Environment Agency's new integrated waste management facility and the Johor Baru-Singapore Rapid Transit System Link.

The Government may even provide an explicit guarantee in case of default to boost the demand and confidence in these bonds.

The usual institutional investors, such as pension funds and insurance firms, are expected to continue investing in these bonds in the near future.

The minimum size for investment is usually $250,000. If the minimum size of the future bonds can be reduced to $10,000, they may be more accessible to retail investors.

IF YOU WANT TO USE THE TERM, JUST SAY:

"Infrastructure bonds in Singapore may be attractive to investors with low risk appetite and a long holding horizon to gain steady returns."

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