RMGS FAQs

1. What is RMGS?

- RMGS is a type of security that the Government issues to MAS, for the sole purpose of facilitating the transfer of Official Foreign Reserves ("OFR") not needed by MAS, to the Government for longer-term management by GIC.

- Only MAS may subscribe for RMGS. This is unlike other Government securities that MAS may subscribe for, to develop Singapore's bond market.

- MAS decides the amount and timing of its OFR transfers to the Government, and hence its RMGS subscriptions. MAS may only use foreign assets as consideration to subscribe for RMGS. RMGS are non-marketable, and MAS may redeem these RMGS before maturity at par.

- MAS will only transfer OFR above what it needs to conduct monetary policy and support financial stability. MAS has assessed, taking reference from internationally accepted measures of reserve adequacy and MAS' practical experience in foreign exchange intervention, that the optimal amount of OFR is between 65% to 75% of GDP.

- For more information, click here for the explanatory brief for the MAS (Amendment) Bill, or click here for the Second Reading speech.

2. Why is there a need for the government to issue RMGS?

- MAS accumulates OFR when it intervenes in the foreign exchange market as part of monetary policy implementation, to keep an appreciating Singapore dollar nominal effective exchange rate ("S$NEER") within the bounds of MAS' policy band, through buying foreign currency and selling SGD.

- Currently, OFR transfers to the Government (see Q4 on why MAS transfers OFR to the Government) are facilitated by a reduction of Government deposits ("GDs", or monies). GDs are the Government's SGD cash deposits placed with MAS. It comprises cash proceeds from the Government's debt issuances as well as other sources (e.g., land sales proceeds, tax revenues).

- A new transfer mechanism is required as the accumulation of OFR is expected to outpace the growth of GDs.
    - <u>Accumulation of OFR</u>. Structural factors, in the form of the Singapore economy's positive net savings and persistent capital inflows in recent years amid abundant liquidity in global financial markets and quantitative easing in other economies, can cause the S$NEER to appreciate beyond a level consistent with domestic price stability.
    - <u>Smaller fiscal balances</u>. Singapore's fiscal situation is expected to be tighter as the Government spends more to meet growing social and security needs, e.g., in healthcare, pre-school education, and security. This has resulted in a slower pace of growth in GDs.

- The issuance of RMGS allows OFR not needed by MAS to be transferred to the Government for longer-term management by GIC without being constrained by the availability of GDs.

3. How is OFR accumulated by MAS? Does RMGS change this process?

- MAS accumulates foreign assets when implementing monetary policy via foreign exchange (FX) intervention operations. Foreign assets that MAS accumulates are known as OFR.

- To dampen appreciation pressures on the SGD, MAS intervenes in the spot FX market by buying USD and selling SGD.
  - The buying of USD increases OFR, which are MAS' assets.
  - The selling of SGD increases banks' SGD deposits with MAS, which are MAS' liabilities. These additional balances correspondingly increase the aggregate amount of SGD liquidity in the banking system.

Buy USD / Sell SGD

Assets	Liabilities
Foreign Assets ↑	Deposits of Banks with MAS ↑

- MAS sterilises its FX interventions through its money market operations, to restore an appropriate level of SGD liquidity in the banking system and keep the monetary base unchanged. This supports the smooth functioning of SGD markets, and facilitates the needed lending and borrowing activity for market discovery of interest rates.
  - MAS does so by withdrawing SGD liquidity using four instruments: direct borrowing, foreign exchange swaps, repurchase agreements on Singapore Government Securities, and issuance of MAS Bills.
  - For example, by issuing more MAS Bills than maturing (net issuance of MAS Bills), MAS can withdraw the additional SGD liquidity and restore banks' SGD deposits with MAS to their original level.
  - Sterilisation is not a pre-requisite for FX intervention (or accumulation of OFR), but is subsequent to such intervention to support the smooth functioning of interest rate markets rather than the monetary policy target (which is the S$NEER).

Issuance of MAS Bills

Assets	Liabilities
	MAS Bills ↑ Deposits of Banks with MAS ↓

- With the introduction of RMGS, there is no change in MAS' intervention and sterilisation operations.
  - MAS will subscribe for RMGS only after it has accumulated more OFR than what is needed to conduct monetary policy and support financial stability.
  - MAS decides the amount and timing of its OFR transfers to the Government, and hence its RMGS subscriptions.

- For more information, please click here for a monograph on Monetary Policy Operations in Singapore.

4. What are the benefits of transferring the OFR to the Government? • GIC invests in longer-term, high-yielding assets rather than in liquid but low-yielding assets compared to MAS. • Placing OFR above what MAS requires for the conduct of monetary policy and support of financial stability with GIC allows such assets to be invested for longer-term returns.
5. What happens if MAS subsequently requires the OFR? • The optimal amount of OFR held by MAS, of between 65% - 75% of GDP, is expected to provide a strong buffer against stresses in the global economy and markets. This will be the first and key source of liquidity for MAS in implementing its mandate. • Nevertheless, MAS will have the right to redeem the RMGS before maturity at par, to meet its OFR needs, for instance in a tail-risk event, to supplement the OFR on MAS' balance sheet.

6. Is MAS financing government expenditure by subscribing for RMGS?
 	
• No, MAS is not financing Government expenditure by subscribing for RMGS.
 	
• There are strong legislative safeguards to ensure that the proceeds from RMGS are not spent. Under the Government Securities Act (GSA):
    o The proceeds from RMGS are accounted for in the Government Securities Fund (GSF).
    o The GSF can only be used for investments or to pay for expenses related to the investment and management of the GSF or the issuance and redemption of Government securities and T-Bills.
    o The GSF cannot be used to fund Government fiscal needs.
 	
• In addition, the proposed MAS Act amendments will further ensure that any subscription of RMGS by MAS can only be made to facilitate transfers of OFR not needed by MAS to the Government. MAS will use only foreign assets to subscribe for RMGS, rather than Singapore Dollars, which is the predominant currency in which the Government spends. This is to draw a clear and direct link between MAS' RMGS subscription and the transfer of OFR not needed by MAS to the Government.

7. Will all future transfers of OFR from MAS to the Government be done via RMGS? • As the pace of OFR accumulation is expected to outpace the growth of GDs, future transfers of OFR to the Government are expected to be conducted primarily with RMGS.