SINGAPORE SAVINGS BONDS

Common Questions

1. How do Savings Bonds compare against fixed deposits?

Savings Bonds offer comparable returns but are more flexible than fixed deposits.

Fixed deposits are offered in terms that range from a few months to 3 years. Promotional fixed deposit rates are significantly higher than regular fixed deposit rates. These promotional rates are however, usually available for limited time periods, and come with conditions such as minimum amounts of fresh funds or purchasing investment products. Early withdrawal of funds may attract some penalties, e.g. foregone interest and other fees. Upon maturity, fixed deposits are usually rolled over at the prevailing regular fixed deposit rates. It is unknown whether higher promotional rates will be available at that time.

Savings Bonds provide certainty on the interest rates for the next 10 years, and can be purchased with a minimum investment amount of $500. Savings Bonds can be redeemed (in multiples of $500) in any month with no penalty. Interest earned over the period of investment will also be paid in full. The table below provides a general comparison between fixed deposits and Savings Bonds.

	Fixed Deposits	**Savings Bonds**
Is my principal protected?	Yes, the first $50,000*	Yes, 100% of your investment
What are the interest rates like?	Regular rates: Up to 1% for 3 years Promo rates: Up to 2% for 3 years *(rates are indicative)*	1 to 1.5% for 3 years 2 to 3% for 10 years *(rates are indicative)*
When can I withdraw my money?	Upon maturity Early withdrawal could result in penalties	Any month No penalty or lost interest *(a $2 transaction fee will apply)*

* Per deposit account; insured by Singapore Deposit Insurance Corporation

2. How do Savings Bonds compare against corporate bonds?

With corporate bonds, investors are paid a higher return to compensate for taking on additional risks.

There are corporate bonds that pay higher interest rates than Savings Bonds for tenors of 4 to 5 years. The higher interest rates are to compensate the investor for taking on higher risks, which include the credit risk of the issuer (i.e. risk of not being repaid if the issuer defaults), liquidity risk (i.e. risk of not being able to readily sell the bond and get back your investment proceeds at any time), and market risk (i.e. risk that interest rate movements cause the bond to decrease in value).

Savings Bonds pay interest rates of 2% to 3% if held for 10 years. Savings Bonds are fully backed by the Singapore Government, which makes it one of the safest investments. Investors do not run the risk of not being able to sell their Savings Bonds nor the risk of a loss on their investment, as they can redeem the full amount of their investment in any month.

3. How are the interest rates of Savings Bonds determined? Why have the interest rates of new Savings Bonds been falling since the launch?

The interest rates of each Savings Bond are based on the average Singapore Government Securities (SGS) yields the month before application for that bond opens. At issuance, interest rates for the entire 10-year term are fixed and locked in for each issue. Interest rates for new bonds could turn out to be higher or lower than older bonds.

Yields of SGS, which the interest rates of Savings Bonds are based on, have been falling in recent months. A major reason is that the market has changed its view of the pace of US interest rate increases, and expects it to be slower. This has decreased the yields on government bonds in the US, and has also decreased the yields of SGS.

4. Should I wait for interest rates to increase before purchasing Savings Bonds?

There is no need to wait as you have the flexibility to redeem your Savings Bonds and reinvest your redemption proceeds when interest rates rise. It is difficult to predict whether or when interest rates will rise or fall. You can invest in Savings Bonds and redeem the bond in any month if interest rates have gone up and you wish to invest in a new, higher-yielding Savings Bond. In the meantime, investing in Savings Bonds even for only a few months allows you to earn interest rates of 1% or more.

5. The monthly subscription amounts have been declining and are below the maximum issuance sizes. Does this mean that Savings Bonds are not an attractive product?

There are no target subscription amounts. Our objective is to provide individual investors with a safe and low-cost investment product.

The investment amounts in Saving Bonds have almost doubled from $413 million at launch, to $810 million as at 1 March 2016. The number of Savings Bonds investors has also been growing from 19,000 for the inaugural bond to slightly more than 32,000 currently.

The fluctuation in the monthly subscription amounts is dependent on the attractiveness of the interest rates of Savings Bonds relative to comparable products. During this period, banks have been offering attractive promotional interest rates on fixed deposits and some deposit accounts. This is a good development as a more competitive market gives individual investors more options and higher returns.

6. Why would I lock up my money for 10 years?

This is a misunderstanding. A Savings Bond matures in 10 years, but you need not hold the bond for 10 years. You can redeem in any month and get your money back fully. In fact, you can redeem part or all of your Savings Bonds early with no penalty. Interest earned over the period that you held the bond will also be paid in full.

7. What is CDP and why do I need a CDP account to buy Savings Bonds?

CDP stands for The Central Depository (Pte) Limited. It performs an important function of helping investors keep an accurate and reliable record of their Savings Bond investments (as well as other securities investments) and ensures that interest payments and redemption proceeds are paid out accurately and on time.

Setting up a CDP account is a one-off process and there is no cost to opening or maintaining this account. Investors can open a CDP account by mailing to CDP the completed account-application form, which they can download from the CDP website (www.sgx.com/cdp/faq) or request through the CDP hotline (6535-7511). Investors can also choose to apply for a CDP account in person at CDP's service counter or through any SGX Securities broker.

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