



Monetary Authority of Singapore

SGD Evolution Away From Non-Internationalisation

BoK-BIS Seminar
March 2009



Backdrop in 1980s

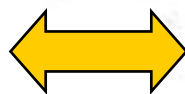
Non-Internationalisation = Greater Stability

True or False / True -> False

- **Small open economy dwarfed by capital flows**
- **Trade dependency**
 - **External sector > 100% GDP**
- **Exchange-rate centered monetary policy**

Dynamics - 1980s to Present

- Avoid barrier to economic activities
- Emphasis on stability while financial market gains depth
- Discourage speculative views on SGD by offshore parties
- Restrictions on *extension of SGD credit* within principle of open capital flows

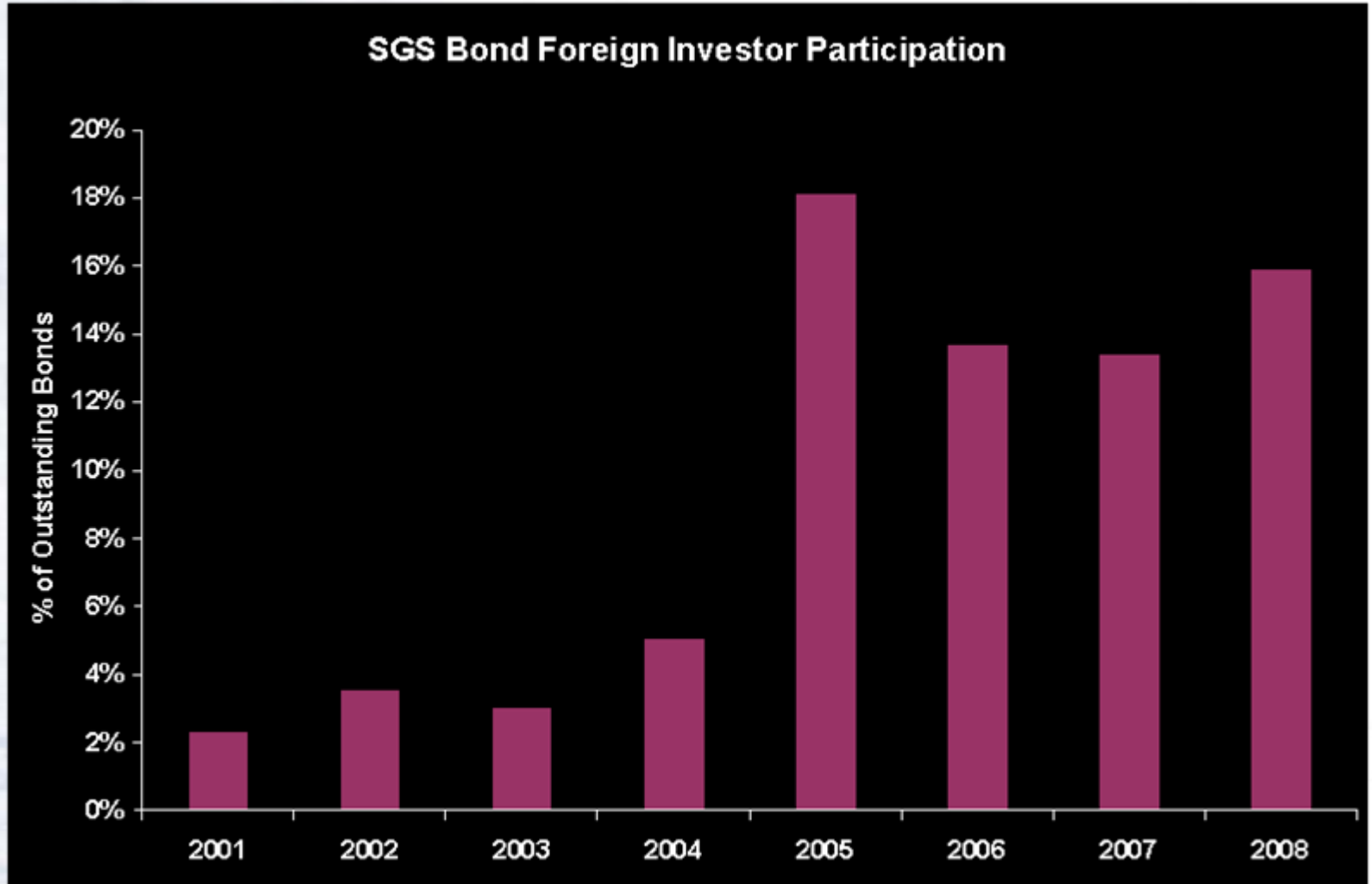


- Soft impact on underlying economic growth
- Capital market development
- Market feedback loop on alignment to economic fundamentals
- Measured and gradual lifting of SGD lending “speed-bumps”

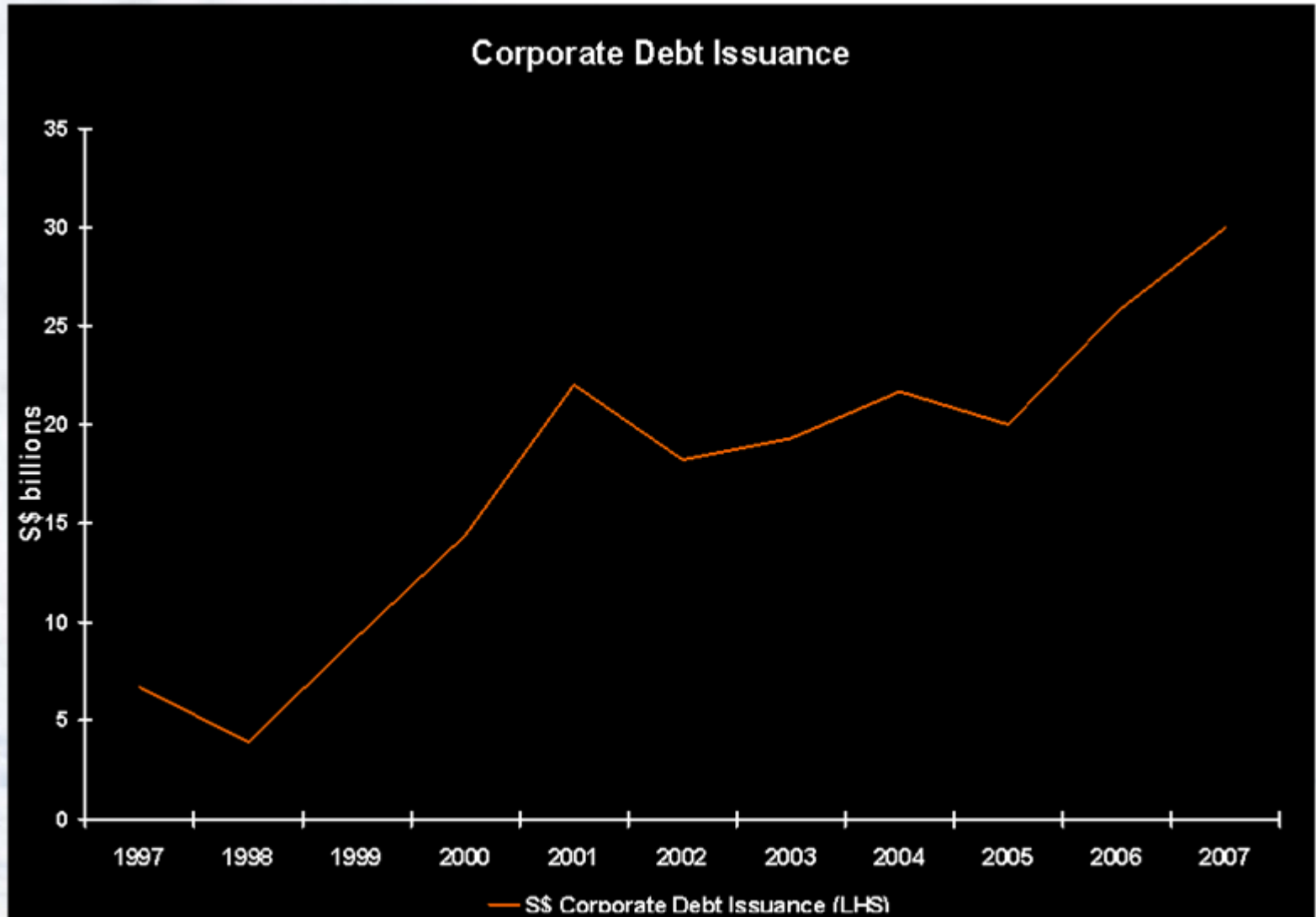
Liberalisation Roadmap

Period	Events
1983	Policy of discouraging internationalisation of S\$ in place
1992	Clarification: S\$ credit facilities extendable to non-residents where S\$ is used for economic activities in Singapore
Nov 1999	Onshore banks allowed to transact all S\$ interest rate derivatives with non-residents freely
Dec 2000	Onshore banks allowed to lend S\$ to non-residents for investments in Singapore. S\$ credit facilities to non-residents to fund offshore activities available if S\$ proceeds first swapped into foreign currency
Mar 2002	Non-resident individuals and non-financial entities exempted from all S\$ lending restrictions. Asset swaps, cross-currency swaps and repos can be transacted freely.
May 2004	Policy of “non-internationalisation” formally dropped with renaming of Notice. FX outright (forward positions) permitted. Sole residual guideline on lending of S\$ to non-resident financial institutions

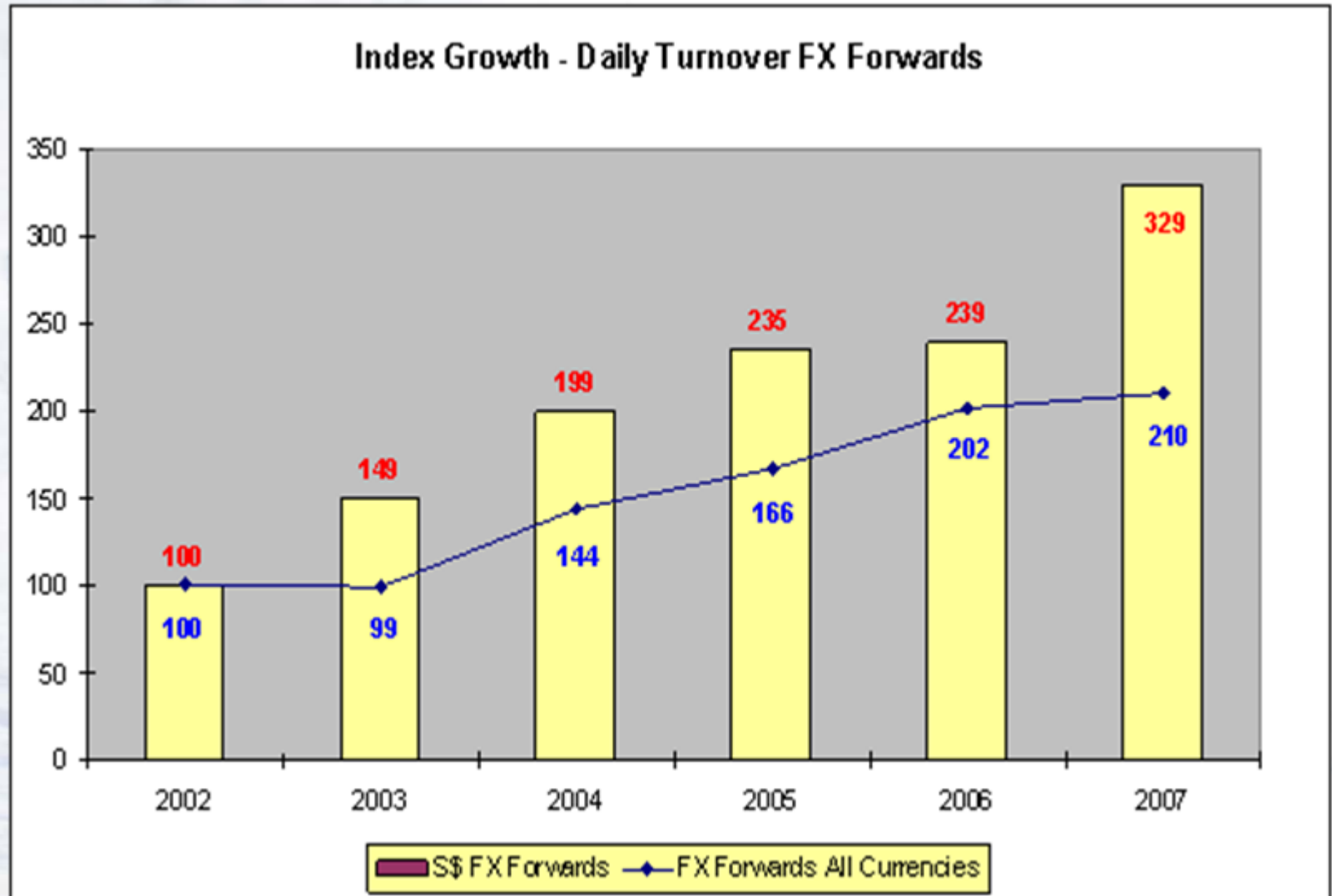
Increased investor participation



Increased issuer participation



Growth in SGD FX Activities



Today's Backdrop

Robust Equilibrium

- Smoother adjustment in currency valuation
- Deeper liquidity from two-way positioning

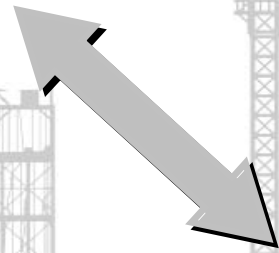
Reinforcing Stability Feedback Loop

Capital Market Growth

- Greater acceptance into investment benchmarks
- No administrative limitation to track

Pricing Efficiency

- Absence of onshore-offshore demarcation
- Paves way for cross-border integration & single liquidity pool



Today's Crisis Backdrop

Potential benchmark paradigm shifts

Rapid re-allocations

Robust Equilibrium

- Smoother adjustment in currency valuation
- Deeper liquidity from two-way positioning

Sharp rise in volatility

"Uncertainty premium" & one-way flows

Reinforcing Stability Feedback Loop

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Investor Kneejerk - Home Currency Bias

Q&A

