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

<table>
<thead>
<tr>
<th>Period</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>Policy of discouraging internationalisation of S$ in place</td>
</tr>
<tr>
<td>1992</td>
<td>Clarification: S$ credit facilities extendable to non-residents where S$ is used for economic activities in Singapore</td>
</tr>
<tr>
<td>Nov 1999</td>
<td>Onshore banks allowed to transact all S$ interest rate derivatives with non-residents freely</td>
</tr>
<tr>
<td>Dec 2000</td>
<td>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</td>
</tr>
<tr>
<td>Mar 2002</td>
<td>Non-resident individuals and non-financial entities exempted from all S$ lending restrictions. Asset swaps, cross-currency swaps and repos can be transacted freely.</td>
</tr>
<tr>
<td>May 2004</td>
<td>Policy of “non-internationalisation” formally dropped with renaming of Notice. FX outrights (forward positions) permitted. Sole residual guideline on lending of S$ to non-resident financial institutions</td>
</tr>
</tbody>
</table>
Increased investor participation

SGS Bond Foreign Investor Participation

% of Outstanding Bonds

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 reallocations

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

Capital Market Growth
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Investor Kneejerk - Home Currency Bias