Koh Yong Guan: Review of Singapore's economy and financial sector

Opening remarks by Mr Koh Yong Guan, Managing Director of the Monetary Authority of Singapore, at the press conference releasing the MAS's Annual Report, Singapore, 21 July 2004.

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Introduction

Good morning, ladies and gentlemen. Let me first give you a quick overview of current economic conditions.

I Supporting non-inflationary economic growth

As you know, the Singapore economy experienced a difficult first half last year. Global economic conditions had improved markedly since then, providing support for a rebound in the domestic economy. We have since recorded four consecutive quarters of solid growth.

The latest economic data released by MTI showed that GDP in second quarter this year grew a robust 9.1% on a seasonally adjusted annual rate basis.

Looking ahead, the prospects for the external economy remain bright. Notwithstanding the risks from rising interest rates, higher oil prices and a sharper than expected slowdown in China, the upturn in the global economy is likely to be sustained through the rest of this year and will support the continued expansion in the domestic economy. Barring any major shocks, Singapore is on track to achieve GDP growth of 5.5% to 7.5% this year.

Following an extended period of very low domestic inflation, signs of inflationary pressures have emerged in recent months. The forecast for CPI inflation in 2004 was hence revised upwards to the 1.5-2.0% range. The labour market is also expected to strengthen, with the unemployment situation improving for the rest of the year. Against this backdrop, MAS shifted to a policy of modest and gradual appreciation of the S$NEER in April 2004. This policy stance was assessed to be supportive of economic growth, while ensuring low and stable inflation over the medium term.

Let me now turn to other aspects of MAS' work during the past year.

II Regulation and supervision

First, in the area of regulation and supervision, we issued the "Objectives and Principles of Financial Supervision in Singapore" monograph earlier this year. This will help the financial institutions we regulate and supervise better understand the desired outcomes of our supervision.

Let me say a few words specifically on risk-based capital. We issued details of changes to the capital adequacy requirements for Singapore-incorporated banks in May 2004. We believe the new requirements are prudent but competitive, and more sensitive to the banks' actual risk profiles. These changes will give the banks greater flexibility to manage their capital while maintaining a prudent buffer against future shocks.

The Basel Committee on Banking Supervision finalised the New Basel Capital Framework last month. We intend to adopt the New Framework at the same time as the G10 countries. We will continue to work closely with the Singapore-incorporated banks to assess the impact of the New Framework and determine how best to adapt the proposals for Singapore.

We expect to implement the risk-based capital frameworks for life and general insurance companies in the third quarter of 2004.

III Enhancing market discipline

On enhancing market discipline, we began inspection for compliance with the Financial Advisers Act (FAA) last year. We noted a number of best practices during these inspections and have published them in a paper.

To alert investors here, we intend to publish a list of unlicensed entities based outside Singapore who are suspected of conducting activities regulated under the Securities and Futures Act and/or FAA. Details will be released by the end of the week.

To help consumers become more self-reliant in their financial affairs, MAS has worked with other public sector agencies to launch MoneySENSE, a national financial education programme, in October 2003. In the next few months, MoneySENSE will conduct a national financial literacy survey to benchmark the current level of financial literacy among Singaporeans. We are also facilitating the development of an integrated dispute resolution scheme for the financial sector.

IV Developing the financial sector

On the developmental front, the wealth management industry grew considerably, both in institutional asset management and private banking. Financial institutions enjoyed fresh inflows of funds as well as substantial appreciation in the value of their assets under management. The alternative asset management industry also saw good growth, with the entry of hedge fund managers. During the year, apart from enhancing the regulatory environment, MAS worked with other government agencies to improve the tax and legal environment for financial institutions involved in the wealth management business. The new Trustees Act is expected to come into force later this year. MAS will also be introducing a framework to regulate trust companies. The proposed framework will ensure high standards of business conduct, professionalism and competence in the trust services industry in Singapore.

The Singapore dollar bond market has developed beyond serving the needs of just local borrowers and has attracted a diversified base of foreign issuers as an alternative venue for cost-effective funding. Large issuers, including Freddie Mac, Fannie Mae and Asian Development Bank have found cost-effective opportunities to tap our bond market. In five years, the market has grown significantly in breadth and depth. Product range has also increased significantly. Structured products now account for more than half of the Singapore dollar bond market. The asset securitisation market has also gained traction, recording a fivefold increase since 1999.

To further enhance the attractiveness of Asian capital markets, MAS has, over the past year, worked with various governments in the region to encourage investor demand, and to address market access and market infrastructure issues. The Asian Bond Fund or ABF is one such initiative. After the successful launch of ABF 1, the Executives' Meeting of East Asia-Pacific Central Bankers or EMEAP is making good progress on ABF2 to invest in local currency-denominated Asian bonds. The EMEAP Group believes that ABF2 will promote the development of index bond funds in the regional markets. We are also working with our ASEAN counterpart on an investors seminar to take place later in the year to raise global awareness of our capital markets.

The treasury industry continued to grow robustly. Foreign exchange and credit trading activities were underpinned by market volatility and a slew of bond issuance in Asia.

To support the broad-based growth in the financial services sector, much attention was placed over the past year on manpower and skills development. The Financial Sector Manpower Conversion scheme, launched recently, will contribute to ensuring a ready supply of skilled manpower in relevant growth areas.

V Playing a more active role in the international arena

Over the last year, we have continued our active role in regional cooperation, formulation of international regulatory standards, and active dialogue with our regional and international counterparts. This reflects our recognition of the importance of closer cooperation in a highly interconnected global market. These efforts are also in keeping with Singapore's role as an international financial centre.

We work closely with our ASEAN counterparts to speed up financial sector liberalisation in the region. Beyond ASEAN, we are actively involved in EMEAP. Last week, we successfully hosted the EMEAP Governors' Meeting as well as the first EMEAP-Eurosystem high-level seminar.

In the international regulatory front, we recently assumed the chair of the Asia Pacific Regional Committee (APRC) of the International Organisation of Securities Commissions (IOSCO), and sit on the IOSCO Executive Committee. We have also assumed the chair of the EMEAP Working Group on Banking Supervision, which will facilitate the region's discussion on implementation of Basle II. We are committed to regional and international co-operative efforts that help to foster a stable global financial system. In that regard, we contributed actively to initiatives of other forums such as BIS, FSF, IAIS and FATF, in the areas of financial stability, regulation and supervision, corporate governance and anti-money laundering.

VI Ensuring business continuity

In the area of Business Continuity Management (BCM), MAS conducted several exercises last year to ensure the effectiveness of our BCM plans. We also inspected BCM plans of major financial institutions (FIs) and found that FIs are generally prepared. For example, during the recent blackout, affected FIs continued operations smoothly on back-up power and activated their incident management process to verify that their buildings and operations were functioning normally. The blackout had minimal impact on the financial sector.

VII Accounts

Let me now move on to the MAS' financial statements.

MAS' total assets grew 16.8% during the year ended 31 March 2004 to S$ 179.7 billion. The Currency Fund's assets, at the financial year-end, exceeded the S$ 14.6b currency in circulation, providing 110% asset backing. MAS posted a net profit of S$ 5.0 billion for the year due to higher returns from MAS' foreign investments in buoyant financial markets globally.

VIII Further enhancing transparency of MAS' operations

In this annual report, we have included a new section that highlights our key achievements and work in progress. To enhance transparency of our decision making framework, we also disclosed details of the Board Committees in the annual report.

Conclusion

In closing, MAS continues to be focused on supporting non-inflationary economic growth, developing the financial sector and enhancing the supervisory framework for a sound and resilient financial sector.

The economy is expected to do well this year. The IMF/World Bank Financial System Stability Assessment concluded that our financial sector is robust, and our legal, supervisory and institutional framework is sound. Rating agencies like Standard & Poors, Moody's, and Fitch continue to re-affirm the strength of our economic fundamentals, which underpin our status as the only Asian country with a triple A sovereign credit rating on both domestic and foreign currency debt.

We are committed to Singapore's vision as a leading financial centre. We continue to stay abreast of market developments and industry concerns and uphold our high standards of regulation and supervision. We will work with the industry to continue to develop a more dynamic, competitive and vibrant financial sector.