

Heng Swee Keat: How the Monetary Authority of Singapore had responded to the crisis and its challenges ahead

Acceptance speech by Mr Heng Swee Keat, Managing Director of the Monetary Authority of Singapore, on receiving The Banker's "Central Bank Governor of the Year in Asia-Pacific" Award, Singapore, 11 February 2011.

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On receiving the award and paying tribute to MAS' staff

1. I am deeply honoured and humbled to receive the "Central Bank Governor of the Year in Asia-Pacific" Award by The Banker.
2. This award is a tribute to the collective contribution of the staff of the Monetary Authority of Singapore (MAS) who had worked hard to ensure that our monetary policy stance was appropriate for the economy during the downturn and the eventual recovery; and to foster a sound and progressive financial system, which overall stood well under stress during the global financial crisis. Several of our key management team members are here: Edward Robinson, Andrew Khoo and Ng Nam Sin. This is also a testament to the collaborative efforts with the industry to build a resilient financial sector. I thank members present here for the roundtable, and in particular Mr J Y Pillay, who as former MD of MAS, laid a strong foundation of sound central banking and regulation.

How MAS had responded to the crisis

3. As a small and open economy with strong linkages with the rest of the world, Singapore was severely affected by the financial crisis through a sharp falloff in global trade. We experienced four consecutive quarters of sequential contraction with a cumulative output loss of 9% – our deepest recession since independence. Conversely, with the subsequent recovery in the global economy, Singapore's GDP rose sharply and now exceeds the level before the crisis. Last year, the economy grew by an estimated 14.7%.
4. Over the course of the crisis in 2008/2009, MAS' monetary policy responses were deliberately graduated, underpinned by the objective of promoting price stability in the medium term. We did not react to every single development in the economy or the financial markets as this would have introduced unnecessary volatility and uncertainty. Following the significant deterioration in external demand in late 2008, MAS eased policy in October 2008 and April 2009 to provide support to the domestic economy. In early 2010, taking into account the strong recovery path of the economy and rising domestic cost pressures amidst high rates of resource utilisation, MAS shifted to a modest and gradual appreciation of the S\$NEER policy band. Subsequently, MAS tightened policy further in October 2010 by increasing slightly the slope of the policy band.
5. Singapore's financial system experienced some initial strains but otherwise has proven resilient during the crisis. Banks and insurers maintained robust capital and liquidity buffers, and balance sheets were relatively strong. Their prudent risk management allowed them to weather the crisis well. MAS has also remained vigilant through the crisis, with my colleagues working hard to ensure that our regulatory and supervisory efforts remain robust.

Challenges ahead

6. To maintain sustained growth, sound economic management, with an appropriate mix of mix of policies, is essential. Sound monetary policy, together with the appropriate fiscal policy, contributes to macro-economic stability. However, it is structural policies that we must turn to, if we are to successfully meet the challenges brought about by demographic

changes, technological advancements and globalisation. Macroeconomic or financial policies cannot work in isolation, and indeed, an over-reliance on any specific policy instrument can create unintended consequences. The robust recovery in the Singapore economy reflects in part the judicious mix of policies that the government has pursued.

7. This year, the Singapore economy is expected to expand at a more moderate pace of 4–6%, driven by the services sector which is expected to benefit from robust regional demand. The IMF projects that the global economy will expand by 4.4%. Nevertheless, the road ahead remains challenging.

8. First, the pace of recovery varies across economies. Many advanced economies are weighed down by the protracted process of restructuring of financial systems and fiscal consolidation. In comparison, Asian and most emerging economies, including Singapore, have bounced back decisively, and are now facing rising inflationary pressures because of tight factor markets and higher global commodity prices. The growth differential and the very accommodative monetary conditions in the advanced economies have also resulted in a strong surge in capital flows into Asia. However, in more recent weeks, the more positive data in the US has resulted in some flow-back to the US markets. This more variegated and dynamic landscape means financial markets are likely to remain volatile in the months ahead. We need to be prepared to manage this volatility.

9. Second, policymakers not only have to grapple with the aftermath of the financial crisis, but also the medium term structural challenges facing their countries. There are significant differences in the pattern of saving and investment across economies. Many of these reflect structural factors such as demographics, as well as the particular path of growth and development. To sustain global growth, some changes in the global saving-investment pattern will be necessary. This cannot happen overnight. Instead, we need sustained and coordinated policy action across all the major economies. The IMF and global bodies like the G20 will have to continue to focus and provide direction on these structural issues.

10. Third, the financial crisis shows how critical the nexus is between the health of the financial system and the health of the economy. Global regulatory reforms are necessary to address many of the weaknesses uncovered during the crisis. Yet, we have to tread a fine balance to build not just have a resilient global financial system, but also one that can support sustainable economic growth. Given the varying pace of economic recovery and the different phases of economic transition, regulations need to be appropriate to local circumstances, while preventing regulatory arbitrage. Globally coordinated efforts and strong international cooperation in some areas, as well as local efforts that are context-specific will both be needed to achieve the desired regulatory outcomes.

11. In short, there are many challenges ahead in navigating the global economic and financial landscape. Singapore, as a small, open economy, will be subject to many of these challenges. We will have to remain vigilant and nimble. I hope that we will continue to make our small contribution to the global discussion on these challenges. We will play our part in strengthening the global financial infrastructure to facilitate the efficient channelling of savings for sustainable development in the region and beyond.

12. I would like to thank The Banker for this award which I accept on behalf of my MAS colleagues. I also thank members of the industry for working together with MAS.