Ravi Menon: MAS' Annual Report 2016/17

Remarks by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at MAS' Annual Report 2016/17 Media Conference, Singapore, 29 June 2017.

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Ladies and gentlemen, good morning. Welcome to MAS' annual report media conference.

GLOBAL ECONOMY

The global economy is in better shape than it has been in a long while.

Economic growth is on a positive momentum.

- IMF has projected global GDP growth for 2017 to hit 3.5%, a marked improvement from the 3.1% last year.

Growth is more broad-based, across both advanced and emerging economies.

- Growth in the major markets — the US, Eurozone, Japan and China — is experiencing a synchronised upturn.
- For the first time since 2014, all the major regions of the global economy — making up more than 90% of world GDP — are poised for a stronger growth outturn compared to the previous year.

Global trade is recovering, on the back of a pick-up in manufacturing activity and bottoming of commodity prices.

- World merchandise trade volume is projected to grow by 2.4% this year, almost double last year's growth rate.
- The JP Morgan Global Manufacturing Purchasing Managers' Index (PMI) has been registering readings of above-50 for 15 consecutive months now.

Economic expansion in the US is becoming more entrenched.

- The IMF has forecast GDP growth of 2.1 %.
- This is a credible projection, based on the resilience of private consumption and an incipient pick-up in private investment; it does not assume a large fiscal stimulus.

Domestic demand in the Eurozone has made a remarkable recovery.

- GDP growth this year is projected at 1.7%, underpinned by private consumption and the ongoing recovery in the labour market.
- Business confidence has improved and political risks have dissipated somewhat in the wake of pro-business election results in the Netherlands and France.

China is on a steady growth path.

- GDP is expected to grow by around 6.5%.
- Underlying private demand is recovering, with retail sales growing at about 10%.
- Profits have improved, industrial prices have started to recover, and export orders are rising.
- These should set off a virtuous cycle of stronger business confidence and capital spending.

The region is also holding steady.

- External demand has strengthened among the ASEAN-4 and NEA-3 economies, driven by the improving China and G3 economies.
- Notably, regional trade is on the rise again, on the back of an increase in machinery and equipment exports.

The most keenly watched macroeconomic development this year – the normalisation of US monetary policy – has so far been largely benign.

- The global economy should be able to absorb the ongoing gradual increase in US interest rates, as the rise in rates is itself a response to strengthening economic activity.
- But vigilance is still called for: economies and markets have been accustomed to low interest rates for a very long time. They could be thrown off balance if rates rise faster than expected.
- And debt levels in emerging market economies are much higher than they were before the crisis. This is a source of potential vulnerability as interest rates rise.

Downside risks around baseline growth forecasts have declined – there is more consensus now about growth outcomes. But tail risks arising from economic policy and geopolitical uncertainties persist.

- One, trade protectionism. An escalation of trade tensions could disrupt global supply chains and curtail international trade, with an outsized impact on many small open economies in Asia, including Singapore.
- Two, disorderly Brexit negotiations could weigh on consumption and investment in the UK, with spillover effects on the Eurozone's exports and growth. Trade and banking channels could transmit these shocks to Asia.
- Three, rising populist and nationalist sentiments could compel politicians to take measures that unnerve investors and depress economic growth.

SINGAPORE ECONOMY

Against this backdrop, the Singapore economy is forecast to grow by 1-3% this year, with a strong likelihood that it would be higher than the 2% registered last year.

Growth has been somewhat uneven across sectors but this is to be expected in the initial stages of an external-led pickup. Growth is expected to gradually broaden to the rest of the economy over the course of the year.

- It is useful to look at the sectoral distribution of growth from the perspective of the three broad clusters in the economy.

The trade-related cluster has been a major driver behind the rebound in the economy since Q4 last year.

- This cluster comprises the manufacturing, transport & storage, and wholesale services sectors.
- These activities comprise some 43% of the economy and, on average, contributed slightly over two-thirds of sequential GDP growth in Q4 2016 and Q1 2017.
- Electronics manufacturing firms expect business conditions to remain favourable in the next six months, albeit slightly slower than in H1 2017.
- MAS expects higher growth in this cluster to flow-through more broadly to the rest of the

economy and gain momentum over time.

The modern services cluster recorded mixed outcomes over the last two quarters but is poised for higher growth in the second half of this year.

- This cluster, comprising financial, business, and ICT services, accounts for about 30% of GDP.
- Financial services saw a strong outturn in Q4 last year but a sequential pullback in Q1 this year, reflecting heightened political and geopolitical uncertainties globally which dampened investor sentiments.
- The performance of modern services is likely to improve as the global economy recovers and the upturn in the trade-related cluster raises business confidence and investments.
- The pickup in regional growth and trade should help anchor growth in lending and trade financing activities.
- Demand for ICT services will be boosted by government initiatives, as well as general IT deepening that is occurring in Singapore and the regional economies.

The domestic-oriented cluster has had lacklustre growth and some segments are expected to remain weak.

- This cluster, accounting for 17% of GDP, comprises retail and food services as well as construction activities.
- The real estate and retail segments will be weighed down by subdued consumer sentiment and the shift to overseas retailers via e-commerce.
- Public construction will be supported by infrastructure projects, such as the ongoing extensions to the rail network, but private construction is likely to remain subdued.

Inflation has come in within expectations. Both core and headline inflation are on a modest uptrend but underlying price pressures remain benign.

MAS Core Inflation is projected to average 1-2% in 2017, up from 0.9% in 2016.

- The rise in core inflation since Q4 2016 has largely reflected higher prices of oil-related items.
- Domestic sources of inflation remain contained partly because the pass-through of business costs to consumer prices has been quite weak.

CPI-All Items inflation is expected to come in at 0.5-1.5%, up from −0.5% last year.

- Accommodation cost will likely continue to exert a drag on headline inflation
- Generalised demand-induced price pressures have been relatively muted for some time.
- But MAS is closely watching developments for the rest of this year, especially if upside risks to GDP growth materialise.

MONETARY POLICY

The current neutral stance of monetary policy has helped to stem disinflation pressures in the economy.

- MAS has adopted a 0% p.a. appreciation path for the S$NEER policy band since April 2016.
- This neutral stance has facilitated a turnaround in headline CPI inflation, which had been negative for 24 consecutive months.

Current monetary policy stance remains appropriate for an extended period in view of the stable inflation and growth prospects for 2017.

- The neutral policy stance should anchor inflation on a gradual ascent towards its historical norm and ensure medium-term price stability.
- This policy is of course predicated on domestic inflation and growth prospects keeping to their projected trajectories.

PROPERTY MARKET AND MACROPRUDENTIAL POLICY

The government has implemented macroprudential policy measures – commonly known as property cooling measures – since 2009 to promote a sustainable residential property market and financial prudence among households.

The property market has substantially stabilised over the last three years.

- Private residential property prices have declined by nearly 12% over the last 14 quarters. This follows an increase of close to 60% over 17 quarters.
- Growth in housing loans, which used to be about 20% year-on-year in 2010, has moderated to 4% in Q1 2017.
- The risk profile of housing loans has also improved, as borrowers now tend to have lower loan-to-value (LTV) and total debt servicing ratios (TDSR).
- Only a negligible share of housing loans is in negative equity.

It is, however, not time yet to ease the cooling measures. They remain necessary.

First, underlying demand for private residential properties remains firm amidst a continued low interest rate environment.

- Recent project launches have seen relatively good take-up.
- Transaction activity in Q1 2017 increased by close to 40% compared to average quarterly transactions since the implementation of the TDSR in 2013.
- At the same time, notwithstanding rate hikes in the US, mortgage rates in Singapore remain very low.
- The risk of a renewed unsustainable surge in property prices is not trivial.

Second, investors continue to search for yield and safety in property markets across the world.

- Regional property markets have been buoyant and their respective authorities have, in the past six months, introduced further property cooling measures. For instance:

  - China, Hong Kong, South Korea, and New Zealand have tightened prudential requirements such as housing loan-to-value ratios and debt servicing ratios.

  - In Australia, New South Wales will be doubling the stamp duty surcharges for foreign investors.

- We must be vigilant that tightening measures elsewhere do not lead to spill-over of investor demand into the Singapore market.
- Easing the measures now would send a wrong signal.

The calibrated adjustments by the government earlier this year do not signal the start of

an unwinding of the property cooling measures, as some commentators have suggested.

- MOF, MND, and MAS stated this very clearly in their joint announcement in March and this remains the position.
- The statement also said that the current Additional Buyer's Stamp Duty (ABSD) rates and Loan-to-Value (LTV) limits would be retained.
- MAS has, on a few occasions, emphasised that the TDSR is a structural measure to ensure financial prudence and not a cyclical tool to be adjusted periodically.

The adjustments in March were made for very specific reasons and purposes.

- The Sellers Stamp Duty (SSD) holding period was shortened and the rates lowered because speculative flipping of properties had declined significantly.
- Mortgage equity withdrawal loans (MWLs) with LTV ratios of 50% or less were excluded from the TDSR framework to give home owners greater flexibility to monetise their properties for retirement needs.

  - This is for a very small category of people: we estimate that MWLs excluded from the TDSR framework made up just 1% of new private housing loans granted in the last three months.

Over the medium-term, property prices should be aligned with broader income trends in the economy.

- Ultimately, residential property purchases are financed out of buyers' income.
- In turn, income growth depends on GDP growth. If property prices increase faster than nominal GDP growth on a sustained basis, buyers would end up taking on more leverage than they can reasonably repay out of their incomes.
- Such highly-leveraged households will be particularly vulnerable when interest rates rise or their incomes fall.
- Therefore, market participants – owner-occupiers, investors, developers – need to set realistic expectations regarding future property price increases.

MAS, together with MOF and MND, will continue to keep a close watch over developments in the property market.

MAS' FINANCIAL PERFORMANCE

After contribution to the Consolidated Fund, MAS made a net profit of S$24.3 billion for FY2016/17.

- This is a record profit but as I have often reminded at these briefings, MAS' profit and loss outcomes are subject to sharp swings.
- They do not reflect the underlying investment approach of the MAS which is conservative and emphasises steady, long-term returns.
- The profit outturn for the last FY reflects positive currency translation effects and higher investment gains.

MAS' underlying foreign investment gains remain fairly stable at S$10–12 billion on average.

- In FY2016/17, MAS made a gain of S$30.1 billion from its investment of the official foreign reserves.

- Currency translation effects, reflecting the depreciation of the Singapore Dollar against some major currencies, amounted to S$8.2 billion.
- Foreign investment gains therefore amounted to S$21.9 billion, compared to S$5.2 billion the previous FY.
- The increase was due to higher interest and dividend income, higher realised capital gains and lower valuation provisions made as global markets rose over the period.
- In fact, taking the two FYs together, the foreign investment gain averaged S$13.5 billion, not much higher than the average of S$10–11 billion recorded in previous years.

A CLEAN AND TRUSTED FINANCIAL CENTRE

Last year, I spoke about how the growth of Singapore's financial centre has been underpinned by its reputation as a clean and trusted jurisdiction.

Upholding high standards of integrity in the financial industry is an absolute priority for MAS.

- That is why we took very seriously the lapses in anti-money laundering controls among some of our financial institutions with respect to suspicious 1MDB-related transactions.
- Working closely with the Commercial Affairs Department and the Attorney-General's Chambers, MAS undertook a rigorous probe of these transactions which were part of a large, complex, cross-border money laundering scheme.

Last year, I said that the findings on the 1MDB-related transactions that flowed through here had made a dent in our reputation as a clean and trusted financial centre.

I believe we have begun the process of restoring that reputation. We have taken tough and unprecedented enforcement actions and sent an unequivocal message that MAS will not tolerate the criminal abuse of Singapore's financial system.

- Just last month, we announced the completion of an intensive two-year long review of banks connected to 1MDB-related transactions known to-date.
- All in, we have closed 2 merchant banks and fined 8 banks nearly S$30 million – the heaviest aggregate financial penalties to-date.
- We have also issued prohibition orders (POs) against 4 individuals and served notices of intention to issue POs against 3 others for various regulatory breaches.
- MAS also issued lifetime bans, for the first time, against 2 of these individuals.

MAS' regulatory actions so far are based on what we know to-date.

- Thanks to excellent co-operation we have had with overseas jurisdictions, Singapore authorities were able to obtain good intelligence and piece together most of the significant flows from end to end.
- We have found nothing new in the latest filing by the US Department of Justice that warrants further action by us.
- But if any new relevant information or leads arise from ongoing investigations in Singapore or elsewhere, rest assured MAS will re-open the files and pursue the matter.

At the same time, MAS has intensified its supervision of financial institutions that have higher inherent money laundering risks or control areas found wanting from past inspections.

- The inspections go beyond rules-based compliance to focus on risk understanding and management. In our inspections, we examine:

- whether the Board and senior management have effective oversight of money laundering/terrorism financing risks;

- whether the financial institution takes timely action to properly resolve risk control concerns; and

- whether there is good risk understanding, adequate risk culture and systems throughout the organisation, to support the proper execution of risk controls.

Sustained effort and unstinting vigilance will be needed on the part of industry players to manage the risk of illicit finance and keep our financial centre clean.

CREATING VALUE FOR THE ECONOMY

MAS is reputed as a tough, "no-nonsense" regulator. But we also seek to be progressive and proactive in developing the financial sector – to be dynamic, innovative, and purposeful.

- We have said much before about our strategies to help grow various activities in the financial sector.
- We have also shared on many occasions our FinTech agenda and efforts to facilitate innovation in the financial sector.
- Today, I will speak about how we are working closely with the industry to ensure that our financial sector remains purposeful for the economy –

- financing the growth of local and Asian companies; and

- creating good jobs for the Singapore workforce.

FINANCING GROWTH OF LOCAL AND ASIAN COMPANIES

MAS has been working with the industry to deepen the financing ecosystem for regional and local companies in three ways.

First, we are working to strengthen the venture capital and private equity financing ecosystem to serve Asian growth companies.

- The next-generation Asian growth companies, with their new ideas and models, have injected vibrancy to our corporate landscape.
- Venture capital and private equity (VC/PE) play an important role in supporting the growth of such companies and stimulating innovation.
- We have a small but thriving VC/PE industry. VC/PE assets under management has grown at a compound annual growth rate of 28% over the past 5 years.
- But we need to do more – given the growing numbers of Asian growth companies and their tendency to stay private for longer and not go the IPO route.

We are simplifying the regulatory framework for VC managers.

We are working with the industry to foster a deeper and more comprehensive ecosystem for venture capital and private equity. Initiatives include:

- anchoring more regional and global VC and PE players in Singapore;

- deepening the talent pool;
- enhancing ancillary professional services to better support VC activity; and
- building a pipeline of alternative market platforms that can facilitate private market exits for PE/VC investors.

Second, we are working to strengthen Singapore's value proposition for Asian companies to issue bonds.

- The growth potential for Asian bonds remains strong, particularly as companies in the region are looking to fund their growing operations and raise longer term capital.
- Let me mention three schemes that MAS has put in place to make Singapore the choice location for regional bond issuance.

To attract new Asian issuers to Singapore's bond market, MAS introduced the Asian Bond Grant scheme earlier this year.

- Under the grant, MAS will co-fund up to S$400,000 of issuance-related expenses for first-time Asian issuers.

To support bond issuers adopting environmentally sustainable practices, there is a Green Bond Grant scheme.

- The scheme will offset up to S$100,000 of the costs relating to the external review required of a green bond.

And the latest – **To encourage issuers to be rated and to nurture a healthy credit rating culture in the SGD bond market, MAS will soon be introducing a SGD Credit Rating Grant.**

- Issuers can claim 100% of their credit rating expenses, up to S$400,000 per issuer.
- Details will be released shortly. We strongly encourage regular domestic issuers to consider obtaining ratings.

Third, we are working to expand the industry's capacity to finance Asian companies' international trade activities.

- Trade financing needs will grow as Asian companies expand and internationalise.
- We need innovative solutions to make trade finance an investible asset, so as to attract a broader pool of investors and provide banks the capacity to originate new trade finance lending.

One such innovation is the Capital and Credit Risk Manager (CCRM), an electronic trading platform for trade finance assets.

- Launched just last month, with 16 financial institutions globally participating, the CCRM aims to enhance efficiency, improve transparency, and augment the risk management of trade finance assets distributed among financial institutions.
- If it is successful, it will help deepen the pool of trade financing available to companies.

CREATING GOOD JOBS FOR SINGAPORE WORKFORCE

Finally, beyond managing wealth, financing companies, providing insurance, and creating markets, the financial sector must create good jobs for our workforce.

In 2016, we saw a net increase of 2,800 financial sector jobs despite the slowdown in financial sector growth to 0.7% from 5.7% in 2015.

- Of course, this net figure masks much larger gross employment flows – of jobs created as well as jobs displaced. Let me talk about jobs displaced first, then jobs that are being created.

Digitisation and automation are gathering pace and many global financial institutions have been downsizing and restructuring their operations.

- The Singapore operations of these global banks have retrenched some staff, mainly in back office functions such as operations, IT and technical support.
- In relative terms, the scale of the cuts has been much smaller in Singapore than in other markets.
- While some financial institutions have laid off staff, others have continued to hire; sometimes, the same financial institution lays off workers in one function but has vacancies in other functions.

Most retrenched finance professionals have been able to find alternative employment, sometimes within the financial industry, sometimes in other industries like ICT.

- But a small number face difficulties finding jobs again, and this is something we are concerned about and working on actively.

For those who have been laid off, we have stepped up efforts to facilitate redeployment.

- The Financial Industry Career Advisory Centre (FiCAC) was launched last year to provide guidance to those keen to join the financial sector or those looking to move to new jobs within the industry.
- FiCAC is a tripartite collaboration among NTUC, the financial industry, and MAS and other government agencies.
- Over 1,200 finance professionals have since tapped on the services of FiCAC, which include outreach on job opportunities, training support, and career coaching.

MAS and our partner stakeholders are working to strengthen FiCAC in two areas:

- First, providing fuller advisory services drawing on a network of professionals, community leaders, and partners as career coaches and industry mentors;
- Second, enhancing job-matching capabilities through the use of digital platforms, such as virtual career fairs.

It is important to intervene upstream in the process well before retrenchments take place. **MAS is working with financial institutions to identify early on jobs that might be at risk in the future.**

We then work with these financial institutions to proactively up-skill these workers through professional conversion programmes.

These are all early efforts still and will take time to bear fruit.

On the positive side of the jobs equation, we continue to see good demand for professionals in several areas of finance.

- These include compliance, risk management, insurance underwriting, and asset and wealth management.

- Within the technology area, there continues to be strong demand for expertise in cyber security, data analytics, network architecture, artificial intelligence, and machine learning.

MAS is working closely with the industry to build the relevant skills and competencies at all levels within our financial institutions.

- To ensure graduates are job-ready, we are partnering with institutes of higher learning to develop curriculum in new growth areas, for example risk analytics for insurance.
- To support mid-career finance professionals deepen their specialist skills so that they stay relevant, we have launched the SkillsFuture Study Awards, with a total of 170 awards to be granted this year.
- To equip capable Singaporeans to take on regional or global leadership roles in financial institutions, we are co-funding leadership programmes at NUS and SMU focusing on international exposure, Asian market insights, and professional networks.

Jobs and skills have moved to front and centre of MAS' financial sector development agenda.

- The sector will disrupt many existing jobs no doubt, but will also create many good ones.
- Working with the industry, we are resolved to help our workforce seize the opportunities that a thriving financial centre at the heart of a dynamic Asia presents.

On that note, let me stop here and I look forward to your questions.