SM/01/172
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

July 2, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Singapore—Selected Issues**

The following correction has been made in SM/01/172 (6/18/01):

Page 34, para. 2, line 1: for "to residents or nonresidents up to"
read "to nonresidents up to"

A corrected page is attached.

Att: (1)

Other Distribution:
Departments Heads

IV. Evolution of the Policy on Noninternationalization of the Singapore Dollar[1]

A. Introduction

1. Singapore has long maintained several restrictions against the international use of its currency, generally referred to as the policy of "not encouraging the internationalization of the Singapore dollar." The policy has been liberalized in stages since the late 1990s, and the most recent and significant liberalization was announced in December 2000. Even before the recent liberalization, the policy posed few impediments to international trade and capital flows, for the policy was intended not to inhibit free flow of bona fide capital but to limit speculative activities in Singapore's financial markets. However, the effect of this policy on protecting the Singapore dollar from speculative attacks is difficult to assess, as it cannot be disentangled from the impact of the solid policy track record and credibility. This note traces the evolution of this policy since the 1980s and assesses its effect on Singapore's integration with the international financial market.

B. The Early Years: Notice 621

Access to the Singapore dollar is restricted for both residents and nonresidents.

2. The noninternationalization policy took root in the early 1980s. After lifting all exchange controls in the late 1970s, in line with efforts to develop offshore financial markets in Singapore, the Monetary Authority of Singapore (MAS) took the position that it would not encourage the internationalization of the Singapore dollar beyond the need to support bona-fide economic transactions. This position of the authorities was well stated in a parliamentary statement by the Minister of Finance in 1980.

> *The Singapore dollar has traditionally been used to finance some of our entrepôt and regional trade. There are no restrictions on the use, or international use, if you like, of our currency for this purpose. At the same time, there has also been no official encouragement for the wider use of our currency. It is not my intention to accelerate such use. If by "internationalization," the Honourable Member means also the use of the Singapore dollar as a reserve currency, I have to say that like many more developed countries, such as Germany and Japan, this will not be welcomed.*

3. The policy was codified into MAS Notice 621 in November 1983, which reads:

> *Banks should observe the Authority's policy discouraging the internationalization of the Singapore dollar. Specifically, banks should consult with the*

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[1] Prepared by Jaewoo Lee (x37331) who is available to answer questions.

Authority before considering Singapore dollar credit facilities exceeding S$5 million to nonresidents, or to residents where the Singapore dollars are to be used outside Singapore.[2]

The Notice allowed banks to freely extend credit facilities to ~~residents or~~ nonresidents up to S$5 million, and required prior consultation for credit facilities exceeding S$5 million, without expressly prohibiting such transactions. The same consultation limit also applied to credit facilities to residents wishing to use the S$ proceeds overseas.

4. A major amendment was made to MAS Notice 621 in 1992. The consultation requirement was lifted for the extension of S$ credit facilities of any amount, where the S$ funds are used for the following activities that are closely tied to economic activities in Singapore.

- Direct exports from and imports into Singapore
- Forward sales of Singapore dollars to hedge receipts from exports to Singapore
- Bond issuance for economic activities in Singapore in favor of Singapore parties
- Guarantee of payments arising from construction or other economic activities in Singapore including guarantee for tax payments.

5. Banks were required to continue to consult with MAS on the extension of credit facilities exceeding S$5 million to nonresidents for purposes other than those listed above, or to residents for use outside Singapore. The intention was to limit the availability of S$ credits for speculative activities by nonresidents or for activities outside Singapore, which MAS stated in the Notice as:

We have no wish to facilitate external speculative activities in our financial or property markets by allowing credit facilities in Singapore dollars, for whatever amounts, to be extended to nonresidents. Banks must also not finance in Singapore dollars, activities which have no bearing on Singapore, e.g. third country trade or activities outside Singapore.

[2] For the purpose of this regulation, residents and nonresidents include bank and nonbank customers. Nonresidents include Singapore-incorporated companies, which are majority-owned or otherwise controlled by nonresidents. Residents include Singapore citizens and permanent residents in Singapore.