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SINGAPORE'S EXCHANGE RATE POLICY: SOME IMPLEMENTATION ISSUES

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Reflecting the small open nature of its economy, Singapore has adopted an exchange rate-centered monetary policy framework since 1981. The exchange rate regime in Singapore is an intermediate regime that follows the basket-band-crawl system. With this managed float system, the MAS has successfully deterred speculators from attacking the domestic currency for most of the past three decades. At the same time, the flexibility accorded by the managed float system aided Singapore in escaping from the 1997–1998 Asian crisis relatively unscathed. In order to advance our understanding of the hitherto successful operation of Singapore's exchange rate policy, we examine the following three aspects of its implementation: (i) the use of the exchange rate instead of the interest rate as the key monetary policy instrument; (ii) the management of the currency basket in terms of foreign exchange intervention operations; and (iii) regulating the level of domestic liquidity alongside exchange rate policy. This paper also provides some insights on the challenges ahead that potentially face policymakers when implementing Singapore's exchange rate policy.

Keywords: Exchange rate targeting; intervention operations; domestic liquidity.

1. Background

When the Monetary Authority of Singapore (MAS) was first established in 1971, Singapore operated a currency board system. With the collapse of the Bretton Woods system in the early 1970s, instabilities in the world currencies led Singapore to develop its own exchange rate policy framework. The Singapore dollar has officially been on a managed float by the MAS since June 1973. By 1981, an exchange rate-centered monetary policy framework had been adopted.

In view of its small and open nature, it is not surprising that the exchange rate plays a key role in the Singaporean economy. Singapore's high degree of openness to trade is captured by its trade to GDP ratio. The size of total imports and exports has been approximately three times that of GDP over the past three decades. In relation to capital flows, almost all forms of capital restrictions and foreign exchange controls have been eradicated since 1978. Even the restrictions on the non-internationalization of the Singapore dollar, imposed to deter currency speculation, have been progressively removed over the years to facilitate the development of Singapore's capital markets. As a major financial center, Singapore has free capital mobility.

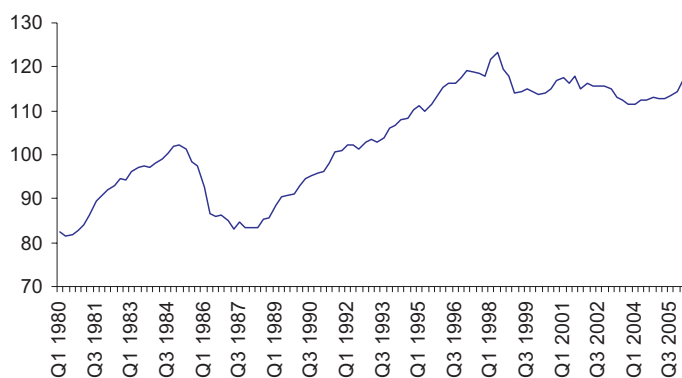


Figure 1. Singapore's Nominal Effective Exchange Rate

Source: International Financial Statistics.

Countries with an export-led growth strategy would typically maintain a low international value of their domestic currency to prevent a loss of competitiveness (Calvo *et al.*, 1995). However, despite its openness and reliance on export growth, Singapore maintains a strong Singapore dollar policy. Figure 1 depicts a time series of Singapore's nominal effective exchange rate (NEER).¹ The exchange rate variable has been defined such that a rise in its value signals an appreciation of the Singapore dollar. It is clear from the secular upward trend in Figure 1 that the Singapore dollar has been appreciating against its major trading partners over the past three decades. Key considerations behind the strong Singapore dollar policy are the desire to maintain confidence in the domestic currency and to ensure price stability. After all, liberalized capital flows and a stable currency are important requirements for Singapore's role as an international financial center and the development of a large offshore banking sector.

Although the exchange rate has not been used to safeguard competitiveness, Singapore's exports continue to exhibit robust growth. In other words, Singapore's competitiveness does not seem to have been compromised by the strong Singapore dollar policy (Abeyasinghe and Wilson, 2002). Yip and Wang (2001) and Yip (2002) also found no empirical evidence of a long-run tradeoff, but only a short-run tradeoff, between Singapore dollar appreciation and export competitiveness. A plausible explanation for this is that the appreciation of the Singapore dollar was accompanied by lower inflation, leaving Singapore's relative price competitiveness unaffected by the appreciation. Meanwhile, the secular appreciation of the domestic currency has the advantageous effect of pushing Singaporean companies to move up the value chain to focus on higher value-added industries. Hence, compared with some other East Asian countries, Singapore's exports tend to be more technology-, skill- and capital-intensive. This, as well as Singapore's more moderate inflation, enables Singapore to maintain its international competitiveness despite the secular rise of its nominal exchange rate and the quasi-fixed exchange rate systems of some other regional countries.

¹The NEER series has been computed by the IMF based on recently updated trade weights (Bayoumi *et al.*, 2006).

The MAS adopts an intermediate exchange rate regime by managing the Singapore dollar under a basket-band-crawl (BBC) system (Khor *et al.*, 2004; Williamson, 1999). Under this managed float system, the Singapore dollar is related to a trade-weighted basket of currencies of its major trading partners and competitors. Additionally, the domestic currency is (more than) fully backed by Singapore's foreign reserves. With the exception of the Asian crisis period, the MAS has successfully deterred speculators from attacking the domestic currency over the past three decades. Even during the crisis period, the flexibility accorded by the managed float system aided Singapore in escaping from the crisis relatively unscathed.

Unlike the crisis economies which initially defended their currencies, Singapore's acceptance of market-driven depreciations at the wake of and amid the deepening crisis could have deterred currency speculators from engineering overdepreciation in the domestic currency (Yip, 2005). The immediate depreciations brought about a sufficiently depreciated Singapore dollar that would have lowered the benefit of further speculation. This also alleviated the need for a steep interest rate hike that was crucial during speculative attacks in Hong Kong.² Of course, Singapore's substantial amount of foreign reserves played a critical role in deterring speculative attacks. Further, strong economic fundamentals such as consistent fiscal surpluses, large current account surpluses, maintenance of stable and consistent macroeconomic policies, and a robust financial system are important reasons why Singapore was relatively less affected by the Asian crisis.

After the weakening of the currency during the crisis, the value of the Singapore dollar leveled off in the post-crisis period (see Figure 1). As the managed float system had served Singapore well, the central bank continues to manage the Singapore dollar under the BBC system. Meanwhile, the region's exchange rate regimes have become more diverse after the crisis. The crisis countries of Indonesia, (South) Korea, Philippines and Thailand have adopted greater flexibility in their exchange rate management. By contrast, Malaysia and China maintained a rigid US dollar peg until July 2005, after which both announced a shift in their exchange rate regimes to a basket peg and a managed float respectively.

In order to advance our understanding of the hitherto successful operation of Singapore's exchange rate system, we examine three distinct aspects of its implementation. Specifically, this paper addresses the following issues: first, the use of the exchange rate instead of the interest rate as the key monetary policy instrument; second, the management of a currency basket in terms of foreign exchange intervention operations; and third, regulating the level of domestic liquidity alongside exchange rate policy. The balance of this paper is organized as follows. In the next section, we discuss the choice between the exchange rate *vis-à-vis* the interest rate as an intermediate target for monetary policy. Section 3 describes the intervention operations that arise when managing the currency basket. Domestic liquidity considerations in relation to foreign exchange interventions are examined in Section 4. We conclude with some comments on the challenges ahead for operating Singapore's exchange rate system.

²Nevertheless, monetary conditions in Singapore did tighten, with the domestic 3-month interbank rate rising from an average of 3.3% before the crisis to a high of 9.3% in January 1998.

2. The Exchange Rate as Monetary Policy Instrument

With the Singapore economy being buffeted by recurrent shocks from the external environment, the primary role of monetary policy is to react to cyclical fluctuations in inflation and output in order to compensate, at least partially, for the impact of exogenous shocks.³ However, for a small open economy like Singapore, it is not feasible to operate an independent monetary policy under a fixed exchange rate. With reference to the open economy trilemma, monetary policy can only fully achieve two of the following three dimensions: monetary policy independence, fixed exchange rates, and open capital accounts. (See Obstfeld *et al.*, 2004 for a treatise on the open economy trilemma.) Given that Singapore has chosen free capital mobility, it can only choose to target either the exchange rate or one monetary variable, but not both.

The policymakers' inability to control interest rates, exchange rates, and maintain an open capital account simultaneously means that the central bank has to choose between interest rate targeting *vis-à-vis* exchange rate targeting. The MAS has chosen to use the exchange rate as opposed to the more conventional benchmark policy interest rate as its policy-operating tool since the early 1980s (MAS, 2000). It is the use of the exchange rate as an intermediate target that contributes to the unique nature of monetary policy in Singapore. The rationale of this decision is revealed when we consider the structure of the Singaporean economy as well as its monetary transmission mechanism. Firstly, Singapore is highly dependent on external demand, which constitutes two-thirds of aggregate demand. Secondly, domestic consumption has a high import content — out of every Singapore dollar spent in Singapore, about 50 cents go to imports. Being a price-taker in the international markets, it follows that Singapore is highly susceptible to imported inflation. Hence, the highly open and trade-dependent nature of the economy implies that the exchange rate is the most effective tool for controlling inflation.

By comparison, the Singapore economy is less interest rate sensitive, notwithstanding its status as a financial hub. Figure 2 provides a schematic illustration of the interactions amongst the key macroeconomic variables as a monetary policy shock is propagated through the Singapore economy. Chow (2005) provides a detailed description of Singapore's monetary transmission mechanism. In that study, the findings from a vector autoregressive analysis suggest that the exchange rate is more influential than the interest rate as a source of macroeconomic fluctuations. In fact, the interest rate does not even appear to be an important channel for transmitting the effects of exchange rate changes to the real economy.

Such a result is not in the least unexpected, given that domestic investment is not particularly sensitive to the interest rate because Singapore's heavy reliance on foreign direct investment limits the impact of the cost of domestic borrowing. As for domestic consumption, houses are a major component of personal wealth in Singapore, but a decline in housing wealth — plausibly caused by a rise in mortgage rates — does not seem to have significant dampening effects on aggregate consumption (Abeyasinghe and Choy, 2004). This rather

³Parrado (2004) uses a monetary reaction function to show the counter-cyclicality of Singapore's monetary policy.

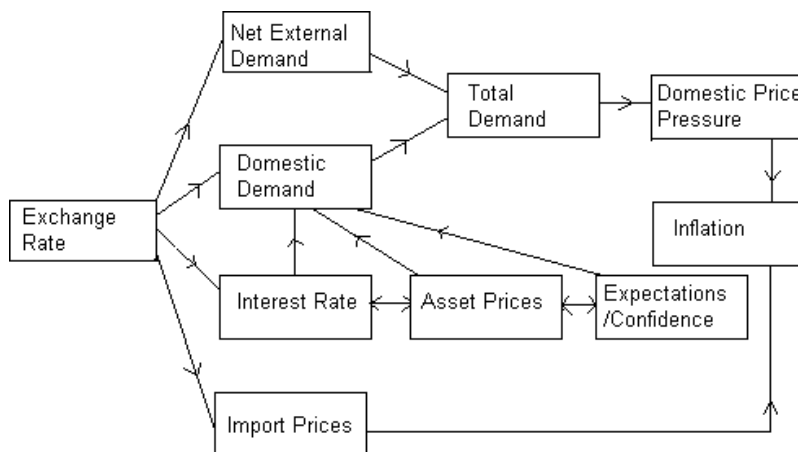


Figure 2. Monetary Transmission Mechanism

Note: This diagram is modified from MAS (1999) and for simplicity, does not show all interactions between variables.

unusual finding has been attributed to the illiquid nature of Singapore’s housing assets as well as the strong bequest motives of Singaporean households (Phang, 2004).

The choice between exchange rate targeting and interest rate targeting is also an important issue for the regional countries. The Asian crisis has prompted the central banks in East Asia to shift their focus from exchange rate stability to price stability. In particular, the crisis-hit countries like Indonesia, Korea, Philippines and Thailand announced the explicit adoption of inflation targeting and the move towards using interest rates as the key monetary policy instrument. After all, the nearly pegged exchange rates and their attendant insurance effect exacerbated the boom-bust cycles associated with capital flows, thereby contributing to the crisis (Corsetti *et al.*, 1999). However, unless capital controls are imposed, the open economy trilemma dictates that those countries that adopt inflation targeting would tend to have a freely floating exchange rate regime as well.

In view of the openness of these regional economies, an increase in exchange rate volatility will have adverse effects on their financial stability as well as their current account position. More importantly, the central banks of these countries will find it a challenge to meet the inflation target when there are large exchange rate movements. Ho and McCauley (2003) found that an appreciation (depreciation) of at least 10% tends to be associated with an inflation target undershoot (overshoot). Hence, notwithstanding the adoption of inflation targeting, there is a need to pay attention to exchange rate stability. In fact, international reserves in East Asia are rising significantly, suggesting active interventions in the foreign exchange markets to moderate the appreciation of domestic currencies. In practice, a number of East Asian economies have not completely lifted capital controls but have maintained a managed float after the crisis (Reinhart and Rogoff, 2001). In other words, regional central banks continued to place emphasis on the management of exchange rates within their monetary policy frameworks.

In the case of Singapore, the exchange rate is used as an intermediate monetary policy instrument to achieve the primary objective of non-inflationary growth. In a sense, monetary policy is operated in Singapore as sort of a hybrid between the BBC and inflation targeting. In practice, an adjustable band is used to track the movement of this instrument, while setting its values in such a way as to hit intermediate targets, control inflation and achieve non-inflationary growth (Khor *et al.*, 2004). In this way, the BBC system can be operated to achieve the same objectives as inflation targeting.

3. Intervention Operations When Managing a Currency Basket

In consideration of Singapore's geographically diversified trade pattern, the MAS monitors the value of the Singapore dollar in terms of a basket of currencies. The currency basket, termed the trade-weighted index (TWI), is a trade-weighted average of the currencies of Singapore's major trading partners and competitors. Neither the component currencies nor their assigned weights in the basket are disclosed by the MAS. The band is centered at a parity which is the target exchange rate for the TWI. This target rate is reflective of the long-run equilibrium exchange rate⁴ and is allowed to crawl over time. Such periodic adjustments in small steps keep the band in line with Singapore's long-term economic fundamentals. This circumvents the emergence of a situation where the Singapore dollar becomes significantly overvalued or undervalued, which would leave the currency vulnerable to speculative attacks.

The MAS uses a prescribed policy band in its monetary policy operations (see MAS, 2003). The Singapore dollar is allowed to float within the band, but like the central rate, the band limits are not publicly announced. The MAS avoids intervening within the band except to prevent unwarranted volatility in the TWI. However, when the TWI approaches or exceeds the boundaries of the policy band, the MAS may carry out intervention operations in order to "lean against the wind" and defend the band. Williamson (1998) makes a distinction between a crawling band whereby the central bank is obliged to carry out foreign exchange intervention whenever the bounds are breached, versus a monitoring band whereby the central bank is obliged to avoid intervening within the band except to smooth out exchange rate volatility. Singapore's exchange rate framework is more akin to that of a monitoring band than a crawling band (Yip, 2005).

Over the years, Singapore has maintained a conservative fiscal policy as well as a commitment to low inflation and a strong Singapore dollar which helped to build the central bank's credibility. Since market participants are mostly convinced of MAS' commitment to enforce the policy band, they tend to keep within it. Such market discipline in turn alleviates the need for frequent central bank intervention operations in the foreign exchange markets (Krugman, 1991). In addition, Singapore's large foreign reserves, as depicted in Figure 3, serve to deter currency speculators.

Despite adopting a basket numeraire, it is not necessary to carry out intervention operations using all the component currencies of the basket. Rather, the central bank can conduct foreign exchange intervention in a single currency that it finds most convenient to transact

⁴See MacDonald (2004) for a MAS study on Singapore's equilibrium real effective exchange rate.

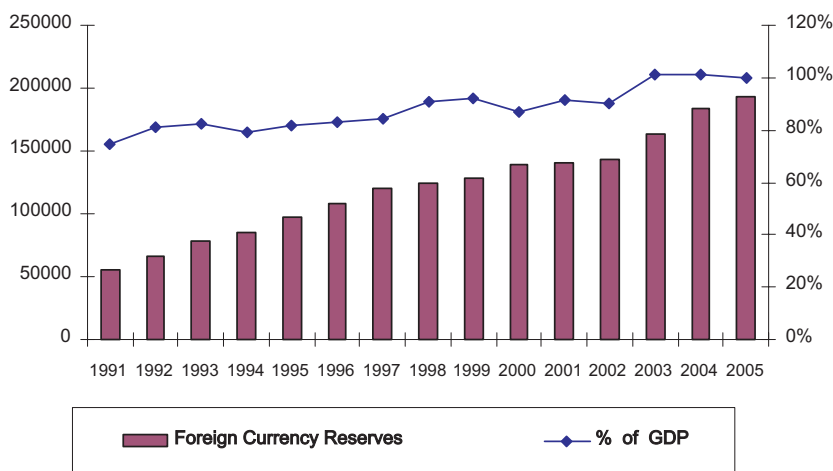


Figure 3. Foreign Reserves (S\$ million)

Source: Monetary Authority of Singapore and International Financial Statistics.

with. This implies that the central bank could, if it wishes, hold foreign reserves entirely in that particular currency for the purpose of intervention operations (Williamson, 2005). Not surprisingly, the MAS intervenes in the US dollar (USD) exchange market as it is the most liquid (MAS, 2003). Following Desai and Veblen (2004), we use a stylized example to illustrate how the authorities can manage the entire currency basket with the use of a single exchange rate. In particular, all of MAS' intervention activities can be accomplished by directing intervention at the Singapore dollar (SGD) bilateral rate with the USD, scaled by observable market levels of the other bilateral rates against the USD.

Suppose the currency basket comprises only two currencies, the US dollar (USD) and the Japanese yen (JPY) with weights w_{USD} and w_{JPY} respectively. The magnitude of these weights reflects the relative importance of the USD and the JPY to Singapore's trading relationships, and they add up to one. The TWI is computed as the geometric mean of the SGD bilateral rates with the USD and the JPY as follows:

$$TWI = \left(\frac{USD}{SGD} \right)^{w_{USD}} \times \left(\frac{JPY}{SGD} \right)^{w_{JPY}}.$$

By expressing the non-USD bilateral rate in terms of cross-rates through the USD, i.e.,

$$TWI = \left(\frac{USD}{SGD} \right)^{w_{USD}} \times \left(\frac{JPY}{USD} \times \frac{USD}{SGD} \right)^{w_{JPY}},$$

all of the USD exposure can be factored out as follows:

$$TWI = \left(\frac{USD}{SGD} \right) \times \left(\frac{JPY}{USD} \right)^{w_{JPY}}.$$

In this way, the central bank can use the USD/SGD exchange rate alone to influence the outcome of the domestic currency on a trade-weighted basis.

Central banks, in general, have often cited exchange rate misalignments and disorderly markets as common justifications for intervention. There is thus, an implicit belief that foreign

exchange interventions are effective either in influencing the direction of exchange rates or dampening the variability of exchange rate fluctuations. The conventional academic view holds that sterilized interventions are ineffective in impacting the exchange rate (see *inter alia* Dominguez, 1998). However, Sarno and Taylor (2001) provide a recent survey whereby the effectiveness of interventions is confirmed through studies using high frequency data and intervention functions. In addition, Fatum and Hutchison (2003) and Hutchison (2003) found, using an event study framework, that intervention is effective if used selectively and directed to short-term goals.

In its semi-annual exchange rate policy cycle, the MAS would announce the exchange rate policy stance through a *Monetary Policy Statement*. Apart from changes to the crawl in the central parity, there could be a recentering of the policy band. Another form of adjustment is through changing the width of the band of fluctuations. For instance, the MAS widened its policy bands as volatility increased in the foreign exchange markets during the Asian crisis, and subsequently narrowed them when a degree of calm had returned to the regional markets. Some market participants have advocated a wider band to guard against the risk of policymakers misjudging the level of Singapore's equilibrium exchange rate. However, others have pointed out that broadening the policy band would increase the risk of the Singapore dollar overshooting and is thus, destabilizing. After all, the Singapore dollar is frequently used as a proxy for broader Asian currency risk, which means that changes in the fundamentals of other regional currencies could lead to overshooting of the Singapore dollar.

4. Domestic Liquidity Considerations

Reflecting the strong and improving fundamentals of the Singaporean economy over the past decades, the TWI has historically exhibited an upward trend. Correspondingly, the foreign exchange intervention operations carried out by the MAS have mostly been to mitigate the appreciation of the domestic currency. This, in turn, leads to a rise in foreign reserves (see Figure 3) and an increase in the monetary base. One macroeconomic implication of defending appreciations is thus an increase in inflationary pressures, unless the MAS carries out sterilization of its foreign exchange interventions. The MAS can in fact counteract the impact on domestic liquidity through the conduct of money market operations. Instruments used for money market operations include foreign exchange (reverse) swaps, direct lending to or borrowing from banks, direct purchases or sales of Singapore Government Securities (SGS) and repurchase agreements on SGS (MAS, 2003). With the use of market operations, the MAS has been able to mop up liquidity from the domestic banking system on a large scale in reaction to economic and financial developments.

Two aspects of the macroeconomic environment are important in impacting liquidity conditions in the Singapore economy. First, the government maintains a strong fiscal position and with few exceptions, has run persistent budget surpluses of over 5% of GDP since the early 1990s (see Figure 4). This, along with the Central Provident Fund (CPF) system described below, contributed to a high national savings rate of above 40% for most of that time period (see Figure 5). The fiscal surplus means that the MAS, as the government's financial agent, is in receipt of deposits from the government. This in effect represents

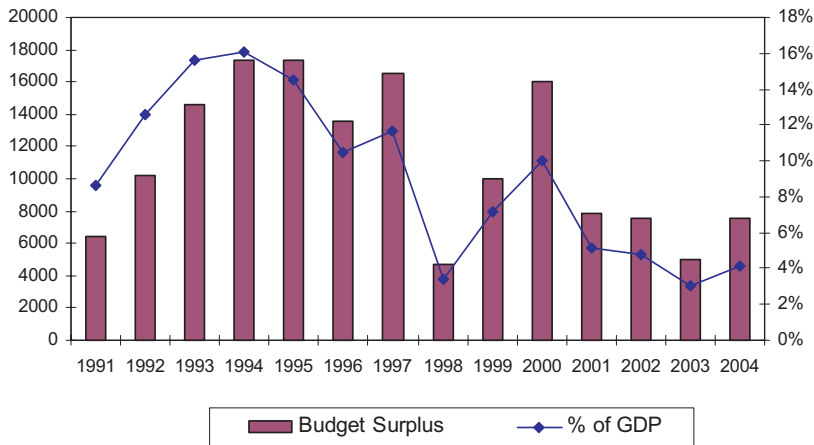


Figure 4. Government Budget Surpluses (S\$ million)
 Source: International Financial Statistics.

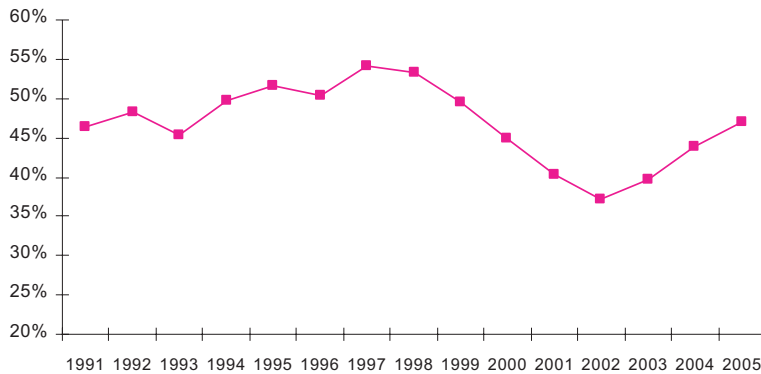


Figure 5. Gross National Savings Rate (as % of GDP)
 Source: Asian Development Bank.

a withdrawal of funds from the domestic financial system. Second, contributions to the CPF — a government-administered fully-funded mandatory retirement program — tend to be in excess of withdrawals due to the relatively youthful profiles of its members. These net contributions also effectively remove liquidity from the domestic banking system.

Since both CPF contributions and public funds transfers represent a substantial liquidity drain out of the economic system, the money supply tends to shrink through these two channels. In order to overcome this liquidity drain, the MAS can actively counteract it through foreign exchange operations (i.e., use the Singapore dollar to purchase the US dollar) to ensure there is sufficient liquidity circulating in the domestic economy. As pointed out earlier, MAS' foreign exchange intervention operations to moderate the appreciation of the Singapore dollar increases the monetary base. This helps to channel funds back into the domestic banking system and offset the liquidity drain from government budget surpluses and CPF net contributions.

Looking ahead, there are concerns that CPF net contributions could turn into net withdrawals as the population ages. After all, the CPF plays a key role as the fund for retirement income. In this event, CPF transfers would be injecting instead of removing liquidity from the domestic banking system, and this could increase inflationary pressures (Yip, 2005). Meanwhile, the Singapore economy is projected to experience a slower growth path associated with the decrease in labor supply.⁵ This suggests a likely fall in tax revenues while government expenditure, especially on healthcare, rises. Such a scenario points to a decline in the government budget surplus that also reduces the drain from domestic liquidity.

However, the attendant fall in savings rate and the narrowing of current account surpluses implies that the Singapore dollar may no longer appreciate on a trend basis as in the past (Khor and Robinson, 2005). With these developments, the MAS may no longer use foreign exchange interventions to moderate the appreciation in the nominal exchange rate that adds to excessive inflationary pressures. In any case, the MAS could rely on money market operations to regulate the level of liquidity in the domestic economy alongside exchange rate policy to foster stable money market conditions and to keep the financial system functioning smoothly.

5. Challenges Ahead

To achieve non-inflationary growth with full employment, Singapore's monetary policy has been complemented by a proactive and flexible wage policy (Wu, 1999). The coordination between exchange rate and wage movements is evident in the appreciation of the Singapore dollar while labor earnings rose during business cycle expansions. Conversely, during severe economic downturns such as the 1985 recession and the Asian financial crisis, nominal exchange rate depreciation was accompanied by wage cuts in the form of downward adjustments to CPF contribution rates. In particular, a 15 percentage point reduction in the employer's contribution to the CPF coupled with a two-year wage restraint policy was initiated to bring down labor costs in response to the Asian crisis (Abeyasinghe and Wilson, 2002). Other administrative policy measures such as cost-cutting and budgetary measures were also employed. Contemporaneously, the MAS allowed the nominal exchange rate to depreciate by widening the band of fluctuation for the trade-weighted index.

The simultaneous cuts in wages and NEER depreciation during the mid-1980s recession and the Asian crisis helped to alleviate the need for huge adjustments in the nominal exchange rate, typically taken to preserve international competitiveness as an economy faces negative shocks. On both occasions, Singapore's real exchange rate depreciations were effected primarily through deflationary price and wage adjustments (see Figure 6).

Looking ahead, there are limitations to the use of domestic cost-cutting measures to substitute for external exchange rate policy. In particular, an ageing population dictates an increasing need for the CPF to focus on its role as a fund for retirement income, rendering CPF cuts less feasible. Nonetheless, a significant fall in the value of the domestic currency is detrimental to the purchasing power of Singapore's overseas investments. The extent to which a real depreciation can be purchased without a nominal depreciation would then depend on

⁵This is due to the ageing population, but can be counteracted by immigration policies.

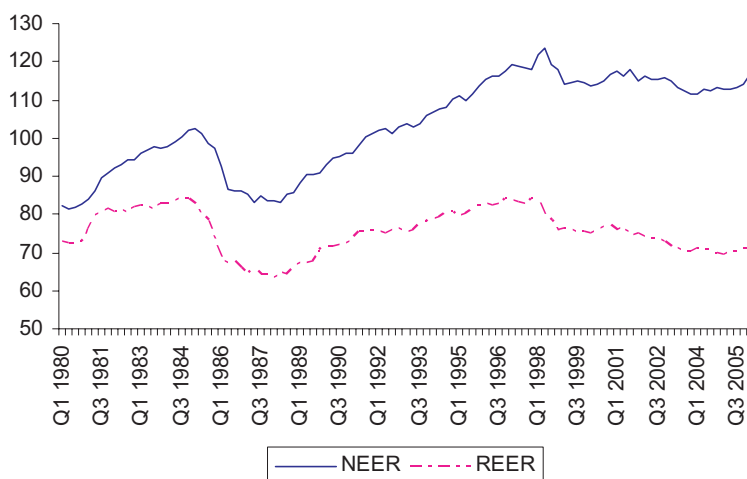


Figure 6. Singapore's Nominal and Real Effective Exchange Rate
 Source: International Financial Statistics.

the flexibility of Singapore's wage structure that links income to the domestic growth cycle, as well as the future degree of flexibility of domestic factor and product markets.

Another challenge faced by policymakers when implementing Singapore's exchange rate policy is related to the recent renewed focus on developing regional exchange rate cooperation (Ogawa, Ito and Sasaki, 2004). There are concerns related to export competitiveness in light of some regional currencies being more flexible and, as a result, appreciating more than others. For instance, both the Singapore dollar and Korean won have risen against the US dollar more than the Chinese yuan and the Malaysian ringgit in the post-crisis period. One way of preventing this from harming Singapore's export competitiveness, as well as the competitiveness of other countries with rising currencies, would be to foster closer exchange rate cooperation among East Asian countries.

However, studies on the feasibility of a monetary union in East Asia have invariably deemed it to be a very distant prospect.⁶ This is not surprising given the region's economic and institutional diversity, particularly the substantial variation in trade patterns within East Asia. In the case of Singapore, Chow and Kim (2001) found a lack of empirical support for it to enter a common currency peg with the other East Asian countries. Since a full monetary union for East Asia is not a viable option, a common loose arrangement such as an EMS-type system has been considered for maintaining intra-regional exchange rate stability (see *inter alia* Wyplosz, 2004). To this end, some have proposed the creation of an Asian currency unit (ACU) — a weighted index of East Asian currencies — to be used as a benchmark for monitoring the movements of regional currencies (Ogawa and Shimizu, 2005).

⁶For instance, Chow and Kim (2003) applied the Optimum Currency Area (OCA) criteria and found the region to be dominated by domestic rather than common regional shocks, thereby concluding that a common currency would be costly for the region. Additionally, Eichengreen and Bayoumi (1996) argued that the region was not ready for monetary union in view of political considerations.

A pertinent question that arises is the suitability or otherwise of such a regional exchange rate framework for Singapore. It is well-known that the economic linkages between Singapore and other industrialized countries of the world remain vital, notwithstanding greater regional integration. Consequently, benchmarking towards regional currencies will not stabilize Singapore's effective exchange rate. Rather, the use of the ACU as a tool for the surveillance of Singapore's exchange rate policy could be misleading, and the authorities will be confronted by the transfer of swings in major currencies into relative trade competitiveness. Besides, the fluidity of the economic environment in East Asia, such as the economic emergence of China, would call for frequent adjustments to an ERM-type system (Hefeker and Nabor, 2005). It is thus not clear that such a regional exchange rate arrangement is superior to the current system of flexible exchange rate management whereby the Singapore dollar benchmarks to its own basket of intra-regional as well as extra-regional currencies. In view of the country's vulnerability to external shocks, flexibility in Singapore's exchange rate system remains crucial going forward.⁷

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⁷This is not in any way at odds with Singapore's official support for regional integration efforts such as the Chiang Mai Initiative. In fact, Singapore has been and remains a champion of greater trade liberalization, especially among the ASEAN countries.

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