Exchange-rate-centred monetary policy

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From fixed parity to managed float

The Authority was born in turbulent times for the international monetary system. In August 1971, months after it opened, the United States suspended the convertibility of the dollar into gold. In June 1973, according to the account given by the chairman of the Authority in 2001, the Bretton Woods system of fixed exchange rates finally collapsed and the Singapore dollar was floated.[1] Other accounts describe the period from 1973 to 1985 as one in which the dollar was pegged to an undisclosed, trade-weighted basket of currencies, followed from 1985 by a managed float within an undisclosed band.[2] The two descriptions are less opposed than they seem, because from 1973 the Singapore dollar no longer had a fixed parity against a single currency, since its value was managed against a basket whose composition the Authority kept secret.

Drawing a lesson from these events, the government made a strong and credible currency one of the pillars of macroeconomic policy, charging the Authority with ensuring it. Exchange controls inherited from the sterling area were dismantled step by step during the 1970s, until the last restriction was removed in 1978.[3] The

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removal of exchange control opened Singapore to international capital. It also made the management of the currency more difficult, because speculators could now move funds freely.

The turn of 1981

The decisive change came in 1981. As global inflation accelerated after the second oil shock, Goh Keng Swee, who had taken over as chairman of the Authority, made low inflation the key objective of monetary policy. He shifted its focus to the exchange rate as the principal instrument. In his words, "in 1981 there was a clearer recognition that the way to beat inflation is to have a strong Singapore dollar".[4] The Authority's own historical survey adds that the framework evolved gradually through the early 1980s.[5]

The reasoning was economic in the first place. The high import content of domestic expenditure meant that inflation in Singapore was largely determined by foreign prices and the exchange rate. Traditional instruments such as the money supply and interest rates were considered ineffective in an economy of this openness. A strong currency also had a political meaning, since it signalled that Singapore pursued a disciplined economic policy and differed from the many developing countries that chronically outspent their revenues and depreciated their currencies.[6]

The Authority still explains its framework in the same terms. In a small and open economy, where gross exports and imports of goods and services exceed 300 per cent of GDP, the exchange rate has a much stronger influence on inflation than the interest rate.[7] The Act frames the objective accordingly: section 4(1)(a) names as the first principal object of the Authority "to maintain price stability conducive to sustainable growth of the economy".[8]

Defending the framework: non-internationalisation

An exchange rate policy without capital controls carries a risk. Because a small currency can become the target of speculative attacks, the Authority did not assume that speculators who bet wrongly would always be punished by the market. It

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therefore maintained an explicit policy of discouraging the internationalisation of the Singapore dollar. Banks were limited in extending Singapore dollar credit to non-residents except for economic activity, while certain interbank derivatives in Singapore dollars were restricted.[9]

In effect the policy separated two markets. Offshore, the Asian Dollar Market described in Chapter IV of this part grew into a large market in foreign currencies, booked in Asian Currency Units since 1968. Onshore, the Singapore dollar remained a currency used mainly for domestic transactions and trade, which the Authority could manage without fear of a large offshore pool. Chapter IV of Part D shows how the policy was relaxed after 1998, when the Authority judged that the economy and the financial system had grown resilient enough. By 2001 only the most essential restrictions remained.[10]

Basket, band and crawl

The mechanics of the framework have remained stable for four decades. The Authority manages the Singapore dollar against a trade-weighted basket of the currencies of its main trading partners, a measure known as the Singapore dollar nominal effective exchange rate, or S$NEER. The S$NEER is the intermediate target of policy and is kept within a policy band. The primary tool for keeping it there is intervention in the spot foreign exchange market, usually in the Singapore dollar against the US dollar, the most liquid pair.[11]

The policy band has three parameters: its slope, which sets the rate of appreciation or depreciation over time, its width, and the level at which it is centred. Each policy decision adjusts one or more of them or leaves them unchanged.[12] By most measures the results have been favourable. In 2001 the chairman of the Authority reported that the Singapore dollar had risen by more than 70 per cent on a trade-weighted basis since 1981. Domestic inflation had averaged 2.0 per cent a year against 6.5 per cent for the OECD countries, while real GDP had grown at an average of 7.6 per cent a year.[13] Over the longer period from 1981 to 2010 inflation averaged 1.9 per cent a year.[14]

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From secrecy to quarterly statements

For two decades the framework operated in secrecy, since the Authority did not reveal its view of the exchange rate, its interventions or its intentions. By 2001 the Authority had begun to publish half-yearly monetary policy statements and to release the movements of the trade-weighted Singapore dollar, which had been a closely guarded secret.[15] The composition of the basket and the exact width of the band remain undisclosed to this day.[16]

Statements were issued every April and October from October 2003 to October 2023. Since 2024 the Authority has issued them four times a year, in January, April, July and October. The decisions of 2026 illustrate the fine calibration of the instrument. After an unchanged statement on 29 January 2026, the Authority increased the slope of the band slightly on 14 April 2026 and very slightly on 27 July 2026, before leaving all parameters unchanged on 14 October 2026.[17]

The official foreign reserves that back the framework are substantial. At the end of September 2026 the official reserve assets of Singapore amounted to US$433.4 billion, of which foreign currency reserves accounted for US$418.9 billion.[18] Under amendments to the Act introduced in Parliament in 2021 and debated in 2022, the Authority may also transfer reserves that it does not need for monetary policy and financial stability to the government, against non-marketable Reserves Management Government Securities. The Authority alone decides the amount and the timing of such transfers.[19] Chapter I of Part D examines the wider system of state capital in which these reserves sit.

Notes

1. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 1: “In August 1971, just months after MAS was formed, the US suspended convertibility of the US dollar into gold”; “In June 1973, the Bretton Woods system of fixed exchange rates finally collapsed, and the Singapore dollar was floated.” ↩

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2. Wikipedia, “Singapore dollar” (accessed November 2026): “a fixed and undisclosed trade-weighted basket of currencies from 1973 to 1985”, followed by a managed float within an undisclosed bandwidth of a central parity. ↩
3. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 1–2: a strong and credible currency enshrined as a key pillar of macroeconomic policy; “we progressively dismantled exchange controls in the 1970s, until the last restriction was removed in 1978”. ↩
4. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 1: Goh Keng Swee “clarified low inflation as the key policy objective, and shifted the focus of monetary policy onto the exchange rate as the principal policy instrument”; quoting Goh: “in 1981 there was a clearer recognition that the way to beat inflation is to have a strong Singapore dollar”. ↩
5. Monetary Authority of Singapore, *A Survey of Singapore’s Monetary History*, MAS Occasional Paper No. 18, January 2000: the exchange rate-centred monetary policy “evolved gradually through the early 1980s”. ↩
6. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 1: the high import content of domestic expenditure; traditional instruments “ineffective in controlling output and prices given the openness of our economy”; a hard currency as a sign that Singapore “was different from the many developing countries which chronically outspent their revenues and depreciated their currencies”. ↩
7. Monetary Authority of Singapore, “Singapore’s Monetary Policy Framework” (mas.gov.sg, accessed November 2026): the exchange rate “has a much stronger influence on inflation than the interest rate”; “gross exports and imports of goods and services are more than 300 percent of GDP”. ↩
8. Monetary Authority of Singapore Act 1970 (current revised text as reproduced by LawPlayer, accessed November 2026), s. 4(1)(a): “to maintain price stability conducive to sustainable growth of the economy”; Monetary Authority of Singapore, “Singapore’s Monetary Policy Framework” (accessed November 2026): this objective is enshrined in the MAS Act. ↩

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9. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 2: MAS "maintained an explicit policy of not encouraging the internationalisation of the Singapore dollar", limiting bank credit in Singapore dollars to non-residents except for economic activity and restricting interbank Singapore dollar derivatives such as currency and interest rate swaps and options. ↩

10. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 4: MAS "has liberalised the non-internationalisation policy, leaving only the most essential restrictions in place", enabling the Singapore dollar bond market to take off. See also Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 2–3 and 6: banks permitted to establish Asian Currency Units to accept non-Singapore dollar deposits; "We have come a long way since 1968 when we started promoting the Asian Dollar Market." ↩

11. Monetary Authority of Singapore, "Singapore's Monetary Policy Framework" (accessed November 2026): managing the Singapore dollar against a trade-weighted basket of currencies, the S$NEER, as intermediate target; the S$NEER kept "within the boundaries of the policy band"; the "primary tool for managing the S$NEER is intervention operations in the spot foreign exchange (FX) market", preferably S$–US$. ↩

12. Monetary Authority of Singapore, "Recent History" of monetary policy decisions (mas.gov.sg, accessed November 2026): each decision is recorded under the three headings "Slope of Policy Band", "Width of Policy Band" and "Level at which Policy Band is Centred", with unchanged parameters marked as such. ↩

13. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 2: since 1981 the Singapore dollar "has risen steadily by more than 70%, on a trade-weighted basis"; domestic inflation averaging 2.0 per cent a year against 6.5 per cent for the OECD; real GDP growth averaging 7.6 per cent a year. ↩

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14. Wikipedia, "Monetary Authority of Singapore" (accessed November 2026): domestic inflation averaged 1.9 per cent per year from 1981 to 2010. ↩
15. Lee Hsien Loong, address at the MAS 30th Anniversary Conference, 20 July 2001, *BIS Review* 67/2001, p. 4: "Until recently, MAS did not reveal its view of the exchange rate"; half-yearly monetary policy statements; publication of "the movements of the trade-weighted Singapore dollar, hitherto a closely guarded secret". ↩
16. Wikipedia, "Singapore dollar" (accessed November 2026): the currency is managed against "a concealed basket of currencies of Singapore's major trading partners and competitors" and floats "within an undisclosed bandwidth of a central parity"; Monetary Authority of Singapore, "Singapore's Monetary Policy Framework" (accessed November 2026), which names the trade-weighted basket without giving its composition or the width of the band. ↩
17. Monetary Authority of Singapore, "Recent History" of monetary policy decisions (accessed November 2026): 29 January 2026 no change; 14 April 2026 slope increased slightly; 27 July 2026 slope increased very slightly; 14 October 2026 no change to any parameter. See also Monetary Authority of Singapore, "Recent History" of monetary policy decisions (mas.gov.sg, accessed November 2026): "Monetary Policy Statements are issued four times a year, in January, April, July and October"; statements "were issued in April and October between October 2003 to October 2023". ↩
18. Monetary Authority of Singapore, "International Reserves and Foreign Currency Liquidity" (mas.gov.sg, last updated 30 October 2026): as at September 2026 (preliminary), official reserve assets of US$433,412.40 million, of which foreign currency reserves US$418,914.90 million. ↩
19. Monetary Authority of Singapore, "FAQs on Reserves Management Government Securities" (mas.gov.sg, accessed November 2026), referring to the explanatory brief for the MAS (Amendment) Bill 2021: "any subscription of RMGS by MAS can only be made to facilitate transfers of OFR not needed by MAS to the Government"; "MAS decides the amount and timing of its

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OFR transfers to the Government"; Monetary Authority of Singapore, "Reserves Management Government Securities" (accessed November 2026): RMGS are "a type of non-marketable security issued by the Government to MAS". ↩

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