Monetary functions before 1971

Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland and Germany),
Solicitor (England & Wales and Hong Kong)
Of Counsel, KGP Legal LLC
alexander.ressos@kgplegal.com.sg
www.ressos.com.sg

The inheritance of the currency board

Singapore entered independence with a monetary system inherited from the colonial period. Since the colonial era examined in Part B, the note issue of the Straits Settlements and later of Malaya had been in the hands of a currency board, which issued notes only against full backing in sterling assets held in London. From 1953 a common Board of Commissioners of Currency for Malaya and British Borneo issued the Malaya and British Borneo dollar, which circulated in Singapore, the Federation of Malaya and the Borneo territories.[1] The currency survived the merger of Singapore with Malaysia in 1963 and the separation of 1965, which Chapter II of this part describes.

A currency board is a narrow institution, which exchanges local currency for a reserve currency at a fixed rate and holds reserves at least equal to the notes in circulation. It does not lend to banks, set interest rates, manage the government's accounts or supervise anyone. In the colonial system, those functions were either performed in London or not performed at all. The commercial banks, most of them branches of British, Chinese and other foreign institutions, managed their own liquidity and looked to their head offices in a crisis.

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The decision of 1967

When common currency negotiations with Malaysia broke down in 1966, Singapore had to decide what kind of monetary institution it wanted. Its choice fell on a currency board, the institution it already knew. Prime Minister Lee Kuan Yew announced on 25 August 1966 that every dollar issued would be guaranteed by an equivalent amount in gold or foreign exchange. On the following day the Minister for Finance, Lim Kim San, announced the formation of the board in Parliament.[2] The Board of Commissioners of Currency, Singapore was set up under the Currency Act 1967 and issued the first Singapore notes, the Orchid series, on 12 June 1967.[3]

The sources differ on the date of the board's establishment. The official history of GIC states that the board began operations on 7 April 1967 and issued its first notes and coins in June, a date that other accounts also give.[4] A popular account dated the establishment to 12 June 1967, the day the notes appeared. The difference reflects two events: the constitution of the board in April and the first issue in June.

Explaining the choice in 1969, Goh Keng Swee recalled that the Cabinet had concluded that there was "little doubt that the currency board would fulfil this requirement better than a monetary authority of the central bank type", the requirement being confidence in a new currency issued by a small and vulnerable state. He added that the way to stabilise the economy "would lie less in monetary than in fiscal measures".[5] Officials of the time later recalled the same motive in their own words. Tang Wee Lip, then manager of the Banking Department, said that Singapore did not want to fall into the group of newly independent countries known for printing money.[6]

A system of scattered departments

The currency board covered only the note issue, so that every other function of a central bank had to be performed somewhere in the government. Banks and finance companies answered to a Commissioner of Banking and a Commissioner of Finance Companies, while foreign exchange fell to the Exchange Control Department. The

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Department of Overseas Investment managed the government's external assets, while the Accountant-General sold Treasury bills, raised domestic loans and managed the clearing house.[7]

Goh Keng Swee, who held the finance portfolio until 1970, described the result as "an untidy system of units that grew up ad hoc in course of time in response to urgent requirements". He coordinated it personally through weekly meetings with the heads of the departments every Monday, supplemented by further meetings on Thursdays and Fridays when needed.[8] Such an arrangement could work as long as a minister of exceptional energy held it together. It could not serve a financial centre with ambitions in international banking.

The shock of the sterling devaluation

The weakness of the arrangement became visible in November 1967. The British Cabinet approved a devaluation of sterling by 14.3 per cent, from US$2.80 to US$2.40, which the Chancellor of the Exchequer announced on 18 November. Singapore, following Malaysia, did not devalue its own currency, although its sterling reserves lost value overnight. In a letter of 12 December 1967 Goh put the loss at about $157 million, "a substantial amount for a 'small under-developed country to sustain'", out of combined external reserves of $1,251.6 million stated in November.[9]

The episode had two consequences, the first of which concerned the reserves themselves. Singapore accelerated the diversification of its reserves out of sterling, a process it had begun quietly in July 1966. By November 1967 half of the reserves were already held in other currencies, about 82 per cent of that portion in US dollars. In the Sterling Agreement of September 1968 Singapore accepted, "with considerable reluctance", a Minimum Sterling Proportion of 40 per cent of its reserves in return for a British guarantee of the US dollar value of part of that sum.[10] The second consequence was institutional, because managing reserves of this size, negotiating with the Bank of England and the Treasury and overseeing a growing banking sector called for a central coordinating body with professional staff.

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Notes

1. Wikipedia, "Singapore dollar" (accessed November 2026): the Straits dollar was replaced by the Malayan dollar and, from 1953, by the Malaya and British Borneo dollar, issued by the Board of Commissioners of Currency, Malaya and British Borneo. ↩
2. GIC, *Bold Vision*, chapter 3, "Donning a Straitjacket" (boldvision.gic.com.sg, accessed November 2026): statement of Lee Kuan Yew of 25 August 1966 ("For every dollar we issue, there will be a currency board which guarantees that there is that amount in gold or foreign exchange"); announcement by Lim Kim San in Parliament on 26 August 1966. ↩
3. Mothership, "50 years ago today, S'pore issued its first series of currency", 12 June 2017: "on June 12, 1967, the Board of Commissioners of Currency Singapore (BCCS) was established", "following the enactment of The Currency Act of 1967"; the first series of notes was the Orchid series; the currency "was to be fully convertible to a foreign currency at a fixed exchange rate"; Wikipedia, "Singapore dollar" (accessed November 2026): date of introduction 12 June 1967. ↩
4. GIC, *Bold Vision*, chapter 3 (accessed November 2026): the Board of Commissioners of Currency began operations on 7 April 1967 and issued its first notes and coins in June 1967; Wikipedia, "Singapore dollar" (accessed November 2026): BCCS "established on 7 April 1967", Singapore dollar introduced on 12 June 1967. ↩
5. GIC, *Bold Vision*, chapter 3 (accessed November 2026), quoting Goh Keng Swee: "The way to stabilise the economy would lie less in monetary than in fiscal measures." See also GIC, *Bold Vision*, chapter 3 (accessed November 2026), quoting Goh Keng Swee (1969): "little doubt that the currency board would fulfil this requirement better than a monetary authority of the central bank type". ↩
6. Barbara Quek, "The Making of the Monetary Authority of Singapore: How the MAS Became Singapore's Central Bank", *BiblioAsia*, vol. 18, issue 3,

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October–December 2022, quoting Tang Wee Lip ("We didn't want to fall into the same group") and Elizabeth Sam ("I think the whole objective was really confidence"). ↩

7. Barbara Quek, "The Making of the Monetary Authority of Singapore", *BiblioAsia*, October–December 2022: the division of central bank functions between the Currency Board, the Commissioner of Banking, the Commissioner of Finance Companies, the Exchange Control Department, the Department of Overseas Investment and the Accountant-General, who sold Treasury bills, raised domestic loans and managed the clearing house system. ↩

8. Barbara Quek, "The Making of the Monetary Authority of Singapore", *BiblioAsia*, October–December 2022, quoting Goh Keng Swee: "an untidy system of units that grew up ad hoc in course of time in response to urgent requirements"; weekly Monday meetings with departmental staff, with Thursday and Friday meetings when needed. ↩

9. GIC, *Bold Vision*, chapter 4 (accessed November 2026): Goh's letter of 12 December 1967 estimating devaluation losses at about $157 million; combined external reserves of $1,251.6 million in the statement of 23 November 1967. See also GIC, *Bold Vision*, chapter 4 (boldvision.gic.com.sg, accessed November 2026): British Cabinet approval of a 14.3 per cent devaluation from US$2.80 to US$2.40 on 16 November 1967, announced by Callaghan on 18 November; Singapore followed Malaysia and did not devalue. ↩

10. GIC, *Bold Vision*, chapter 4 (accessed November 2026): Singapore agreed "with considerable reluctance" to a Minimum Sterling Proportion of 40 per cent; renewal of the Sterling Agreement in September 1968 for three years, with a US dollar guarantee on an agreed proportion of the MSP. See also GIC, *Bold Vision*, chapter 4 (accessed November 2026): diversification from sterling began in July 1966; by November 1967 half of the reserves were in currencies other than sterling, about 82 per cent of the non-sterling portion in US dollars. ↩

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Author contact: Dr Alexander Ressos, TEP · contact@ressos.com