The late Seventies and early Eighties have seen Singapore grow in importance and size as a financial centre. Recycling of OPEC countries' surpluses to sovereign borrowers through syndicated loans gave a big boost to the ACU market initially. When the LDC debt crisis unfolded, many international banks shifted their emphasis from loans generation towards treasury activities, securities, risk arbitrage and trading activities. Turnover in foreign exchange, off-balance-sheet instruments and debt securities grew by leaps and bounds as financial institutions actively traded movements in interest and exchange rates globally, while minimising their asset size and exposure to counterparties.

Singapore is well placed to benefit from these increased global activities and has built up a reputation, together with Hong Kong, as a risk management centre providing market-making capabilities and liquidity to the vast global financial fund flows.

Asia-Pacific will become the world's economic and financial powerhouse in the next five to ten years. Singapore must build on its current strength and reputation as a risk management centre.

There were significant market developments in 1987 with material influence on Singapore. First, there was the sharp decline in the US bond market in early 1987, followed more significantly by the global stock market crash in October. The crash has not materially affected the stability of the financial system in any of the major markets. However, many investment houses and commercial banks have suffered tremendous losses in their trading and market-making activities. The losses are compounded by sharp declines in customer volumes in debt securities and equities. As a result of the substantial build-up in facilities, staff and expenses have to be significantly pruned, resulting in staff lay-offs, cost-cutting and rationalisation of existing businesses. The Singapore operations of international banks, though less affected, have not been spared these cost-cutting and rationalisation exercises.

The second major development was in capital adequacy. After years of discussion, central bankers under the auspices of the Bank of International Settlements (BIS) agreed to have capital reserved against off-balance-sheet transactions. Additionally, more prudent risk-based capital adequacy requirements will be imposed uniformly across all the 11 BIS members and EEC countries, thus affecting not only US and UK banks, but the higher-leveraged Japanese banks. This agreement means that banks will have to either raise more capital over the next three years (not an attractive prospect in the current environment) or reduce their assets and curb their off-balance-sheet transactions. Interest in trading off-balance-sheet instruments and building securities portfolios will therefore be reduced.

Another major development in 1987 was the massive build-up of reserves against LDC debts by the international banks, especially American. They now have to face up to the fact that the LDC loans are not worth their balance sheet values and provisions for possible losses have been made. In 1987, substantial losses were reported because of these provisions. Faced with increasing demands on higher capital adequacy ratios and unattractiveness in raising capital as a result of the stock market crash, banks have to increasingly focus on short-term profits and cost trimming.

1987 also witnessed the relative success of central banks in managing exchange rate volatility. In February 1987, major industrial countries met and agreed on the Louvre Accord for currency stability. Exchange rate stability generally gave way in the fourth quarter as the US Dollar continued its descent. However, with renewed resolve at the year-end and in the first quarter of 1988, foreign exchange rate volatility was much reduced as central banks intervened effectively to keep the US Dollar within narrow trading ranges against the major currencies. The continued stability in exchange rates could reduce activity in the foreign exchange markets, with similar implications for Singapore.

In 1987, the strength of the Asian economies and their financial power became more evident. In particular, Japanese banks and securities houses are increasingly directing international financial flows, and the Asian countries' strong economies and reserves are attracting substantial interest to the region. So far, much of the focus is on Japan and North Asia, thus benefiting Singapore to a lesser degree.

Against these global developments, how has Singapore fared and what does the future hold? Domestically, Singapore has weathered the storms well. The stock market remained open throughout the difficult times in October, and the well-supervised regulatory environment has ensured that no stockbrokers and financial institutions got into difficulties. Market-making by Singapore banks, especially in foreign exchange, has been maintained, ensuring our reputation in providing general market liquidity to the global system.

However, international developments are not very positive. The risk-based capital adequacy guidelines may result in a slowdown in money market and securities trading and off-balance-sheet instruments. The worldwide rationalisation to cut costs means a concentration of activities in the three main treasury centres of London, Tokyo and New York. The related centres, such as Singapore, which do not have much domestically generated business, will have to work harder and be more innovative and flexible to stay in the mainstream.

Asia-Pacific will become the world's economic and financial powerhouse in the next five to ten years, and Singapore must exploit to the full the opportunities available. Singapore must build on its current strength and reputation as a risk management centre, providing liquidity and market-making capabilities. In this respect, Simex, with its mutual offset system with the Chicago Mercantile Exchange, has been an important step forward. The link between Sesdaq and Nasdaq, whereby certain stockbrokers in Singapore make markets in selected US equities, has the potential to be another breakthrough in the process of establishing Singapore as a risk-management centre. Incentives are also available for corporations, including banks, to set up operational headquarters in Singapore.

It is essential for Singapore to maintain its competitiveness by working harder and doing what we have been doing better. Living costs in Singapore are lower than in Hong Kong or Tokyo, according to MAS surveys. Telecommunication charges are among the lowest in the world. Our infrastructure is well developed and English is spoken everywhere. Singapore offers a very pleasant and efficient living and working environment. In addition, we need to maintain a supply of highly trained people. Our centres of higher learning could further emphasise financial education to produce graduates better prepared to lead Singapore forward in these fields. Specialised training should be upgraded.

As financial institutions are increasingly focused in their business strategy and are more selective in where they locate, the business environment for our financial centre becomes more difficult. Singaporeans cannot afford to be complacent. They must work to maintain Singapore's competitive position in the global marketplace.