
SINGAPORE CAN WITHSTAND SEVERE ADVERSE SHOCKS: IMF

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The IMF says Singapore's financial system would continue to be resilient even under very adverse scenarios, but that foreign currency liquidity risk needs to be addressed.

The IMF (International Monetary Fund) has concluded its latest FSAP (Financial Sector Assessment Programme) for Singapore, finding the city-state's financial system to be resilient, and underpinned by a strong regulatory and supervisory framework.

The MAS (Monetary Authority of Singapore) welcomed the assessment, saying in a statement that it reaffirmed Singapore's financial sector oversight to be among the best globally.

Overall, the financial sector in Singapore was assessed to be resilient, with healthy buffers to withstand severe adverse shocks, the IMF said, also crediting the MAS for striking a good balance between fostering financial innovation and strengthening regulatory oversight since the last FSAP review in 2013.

[IMF Executive] Directors supported the authorities' focus on balancing the promotion of financial innovation against preserving financial stability, investor protection, and financial integrity, reads an IMF statement.

According to the IMF, stress tests indicate that Singapore's financial system would continue to be resilient even under very adverse scenarios, including large-scale global financial market turmoil. In particular, it noted the MAS ability to act proactively to address emerging threats to financial stability through the use of macroprudential policies.

However, the IMF also said liquidity stress tests have revealed vulnerabilities in US dollar liquidity, and recommended that banks bolster foreign exchange liquidity to ensure access to sufficient amounts of foreign currency in times of crisis.

According to the report, banks are currently overly reliant on the financial markets for foreign exchange, with a loan-to-deposit ratio in foreign currency of 128 percent.

A Nikkei report, however, noted that Singapore's systemically important banks have much lower foreign currency loan-to-deposit ratios of around 90 percent, though it also highlighted the relatively low US dollar liquidity coverage ratio, which indicates that banks could face a shortfall in adverse circumstances.

According to the IMF, other jurisdictions have found it useful to introduce minimum ratio requirements for specific foreign currencies.

The IMF also highlighted that MAS crisis management and resolution regime for distressed financial institutions has been strengthened with the introduction of enhanced resolution powers in 2017, though it urged for more resources to be devoted to the regulators resolution unit, among other recommendations to strengthen the framework.

The IMF also took note of the reforms to reinforce the safety of the payment system, highlighting that MAS Electronic Payments System (MEPS+) operations and oversight are compliant with international standards. However, given the evolving payments landscape and the broad scope of its supervisory responsibilities, the MAS division that supervises payment systems should be given more resources, it added.

The MAS said it will review the IMF's recommendations and undertake appropriate measures to further strengthen financial oversight.

Due to recent global trade tensions, the IMF has trimmed its 2019 economic growth forecast for Singapore from 2.3 percent to 2 percent.

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