



M.F.(E.D.) 0064/67 **SECRET**

MINISTER FOR FINANCE,
SINGAPORE.

12th December, 1967.

The Right Honourable Roy Jenkins,
Chancellor of the Exchequer,
The Treasury,
London.

My dear Chancellor,

I acknowledge the receipt of your letter of the 6th December, 1967. First, may I welcome you to the fraternity and wish you many happy and rewarding years in it.

2. Your misgivings over our overseas investment, I am afraid, rest on a misunderstanding of the real situation. Three-fourths of the funds we keep overseas are not monetary reserves. They consist of accumulations of various deposits and surpluses on Government account, mainly the outcome of prudent financing over the years and continuous surpluses in Singapore's overall balance of payments. For instance, we still retain the archaic custom of funding our Public Debt and these sinking funds are maintained abroad. As these are not monetary reserves, I was not aware that I was obliged to discuss with anybody where I bank them.

3. Our monetary reserves, represented by \$352 million in new Currency backing and about \$150 million in old Currency backing, are held in London except for some \$46 million in U.S. dollars. There is also a small amount, \$73½ million, held in gold in London. I do not think you can say that an unduly large proportion of our monetary reserves is being held outside the Sterling area. I may mention here that our currency notes are automatically convertible into sterling on demand and this is the reason why we keep such substantial holdings in London and maintain a 100% cover for our note issue.

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4. As a consequence of this, following upon devaluation, Singapore has lost \$69 million in the value of its Sterling backing of the new currency and our share of the old currency. In addition, the Singapore Government has lost another \$65 million and the statutory authorities another \$23 million. Totalling \$157 million, these are substantial losses for a small under-developed country to sustain. However, you may be pleased to know that neither I nor any of my colleagues have uttered a single word of recrimination against your Government.

5. The position could have been different. I do not know if the Bank of England had informed you of the reaction in Malaysia where consultations with your Government did take place. You may be interested to read comments from senior Malaysian Ministers and senators on this subject and I enclose copies of newspaper reports on this.

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6. You may rest assured that the strength and stability of the Sterling area have been and will continue to be uppermost in our minds. The diversification exercise you referred to was conducted gradually and over a long period of time. Had we been unmindful of the general interests of the Sterling area, we would have been able to avoid a large part of the losses that we had incurred.

Yours sincerely,

(Goh Keng Swee)

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