

Future of money: The case for a digital Singapore dollar

Now is when our country can secure a first-mover advantage – and shape the new financial order. **BY PIYUSH GUPTA**

MONEY does not have any inherent value. Rather, it derives value only from the collective trust that people have in it. History tells us that the nature of money follows technology shifts. Over time, money has evolved from commodities such as cowry shells to metals such as gold, silver and copper, then to paper, plastic, and QR codes.

We now stand at the cusp of a pivotal opportunity for a massive transformation of finance. With the rise of blockchain and Distributed Ledger Technology (DLT), we face a paradigm shift where trust is not based on faith in institutions but based on underlying technology.

In view of these profound changes, the question arises: What does the future of money hold? While the fundamentals of money – the ability to store and transfer value – have remained constant, the form of money is evolving through new digital avatars.

To continue punching above our weight on the global financial stage, Singapore must seize these opportunities. There is scope to be bolder in imagining the future of payments, specifically by launching a digital Singapore dollar.

Strategic purposes

The case for a digital blockchain-based Singapore dollar is both defensive and offensive. It serves three strategic purposes: solving domestic fragmentation; providing a geopolitical buffer; and signalling national intent.

First, let us address the counter-argument regarding utility. For the longest time, I was in the same camp as the Monetary Authority of Singapore (MAS): that we do not truly need a retail central bank digital currency (CBDC). The primary value proposition of digital currency is usually cited as instant payment. In Singapore, PayNow and Fast enable immediate money transfers. If the problem is speed, we have solved it.

However, speed is not the only metric; interoperability is. Despite efforts such as the SGQR code, we have not been able to get everyone onto a single, interoperable system. Depending on what QR code is displayed, some consumers can use it while others cannot.

There remains a range of form factors – cards, QR codes, e-wallets – which depend on multiple payment rails. A digital Singapore dollar would serve as a common payment foundation that flows freely between any wallet or card. For consumers and businesses, this will reduce confusion and enable a seamless customer journey.

Furthermore, this digital currency unlocks “programmability”. A CBDC could be programmed to determine things such as when and where it can be used. Through Project Orchid, the MAS has already piloted “Purpose-Bound Money”. These are



The launch of a digital Singdollar will further cement Singapore's reputation as a leading global financial centre at the forefront of future technologies. PHOTO: TAY CHU YI, BT

vouchers issued using tokenised Singapore dollars to facilitate real-world transactions, enabling instant payment and collections for businesses while allowing the government to retain control on usage.

Second, and perhaps more critically, a digital Singapore dollar provides a buffer against potential outflows to US dollar stablecoins. We are now seeing a shifting global payments landscape. Today, most stablecoins are backed by fiat currency, with US dollar-denominated stablecoins accounting for 99 per cent of the global stablecoin market.

This dominance creates a risk of capital flight into US dollar proxies. Standard Chartered estimated that up to US\$1 trillion in deposits could leave emerging market banks and move into US dollar stablecoins in the next three years.

There are geopolitical implications: Today, around 70 per cent of global flows are denominated in US dollars, making it the global reserve currency and affording the US enormous financial clout. If the world were to migrate to a significant use of US dollar stablecoins, the situation would worsen.

We risk a scenario where more and more of our deposit circulation moves to the US dollar. Launching a digital Singdollar is a defensive move against this potential capital flight. It positions us to participate meaningfully in a world with diverse digital currencies.

Of course, one must consider the sys-

temic risks of such a shift. A major concern is the “tail risk” of a bank run. If a central bank issues a digital currency directly to citizens, there is a danger that in times of stress, depositors will flee commercial banks to the absolute safety of the central bank.

This would hollow out commercial bank liquidity and force the central bank to become a lender to the economy – a role it does not want.

However, this has an easy fix: an intermediated model. We should not issue the currency directly to the public. Instead, it should be issued through the existing banking system. This preserves the stability of financial intermediaries while delivering the benefits of a tokenised currency.

Staying ahead of the game

Finally, the launch of a digital Singdollar would further cement Singapore's reputation as a leading global financial centre at the forefront of future technologies.

It will send a strong signal of our position as being ahead of the game and our national intent to embrace a new tokenised world.

This transformation extends beyond payments into capital markets. Currently, capital markets face inefficiencies, such as long settlement times and error-prone manual processes. Tokenisation offers the possibility of greater efficiency and automation across the entire value chain.

blockchain and DLT for clearing and settlement, and Project Guardian to enhance financial market liquidity through asset tokenisation.

However, these remain on an experimental basis. MAS has assessed that there is no immediate need for a retail CBDC, yet it seeks to advance the requisite infrastructure.

As a country, we now face two choices. Some argue that we should proceed with care and caution. Others assert that we are now in a position of strength to commit to architecting a new financial infrastructure.

Given the massive changes afoot, we need to make a leap of faith to continue thriving as a financial centre. There is perhaps a 50 per cent chance that the world would not completely embrace this. But the risk of inaction is greater. The time to do it is when there is no immediate need, but when you can secure a first-mover advantage.

Shaping a new financial order

This transformation demands a “whole of nation” approach. Collaboration will not be achieved without the public sector leaning in actively to drive the agenda. This is our competitive advantage. We can bring incumbent financial institutions, startups and the public sector together to co-create and shape a new financial order.

Just as Great Britain served as the launchpad for the Industrial Revolution back in 1750, so too can Singapore be the launchpad for a new financial architecture.

The future of finance belongs to any and all who embrace technology, stay nimble, and have the vision and boldness to reimagine and build a new financial world order. Singapore is small enough to be nimble, but big enough to matter. It is highly pragmatic, yet bold enough to dare to dream. The future is ours for the taking.

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This is an edited excerpt of the third IPS-Nathan Lecture by the writer on Singapore's financial sector and the corresponding question-and-answer session.