Comparison with Hong Kong and Geneva

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Hong Kong: the defence of the peg

Hong Kong faced the same crisis with a different monetary regime. Its currency board, which links the Hong Kong dollar to the US dollar, left no room for depreciation. In October 1997 the Hong Kong Monetary Authority defended the peg by allowing interest rates to rise.[1] When speculators attacked both the currency and the stock and futures markets in August 1998, the government took an extraordinary step. Between 14 and 28 August 1998 it bought shares of 33 constituent companies of the Hang Seng Index, spending HK$118 billion, about 18 per cent of the assets of the Exchange Fund. The shares were later returned to the market, beginning with the Tracker Fund of Hong Kong in November 1999.[2]

The comparison shows two coherent strategies. Hong Kong kept a fixed exchange rate and paid for it with high interest rates, deflation and a contraction of 5.9 per cent in 1998.[3] Singapore let its currency adjust against the US dollar and cut domestic costs, with a milder recession. Hong Kong intervened directly in the stock market, whereas Singapore explicitly refused to do so. Both cities emerged with

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their reputations as financial centres intact. Each also confirmed a principle on which its centre rests: the currency board in Hong Kong, the managed float and the refusal of market intervention in Singapore.

Geneva: a domestic crisis

Switzerland was far from the Asian crisis. Geneva faced its own banking crisis at almost the same time, but with domestic causes. The Banque cantonale de Genève, formed in 1994 from the merger of the cantonal savings bank and the mortgage bank, ran into grave difficulties at the end of the 1990s and required a costly intervention by the canton, as the Geneva volume records. The rescue law of 25 May 2000 transferred the bank's problem assets to a cantonal foundation for their realisation. According to a bill tabled by members of the cantonal parliament in 2017, the cost of the rescue had risen, with interest, to CHF 3.137 billion by the end of 2016.[4]

The contrast is instructive. Singapore's banks lost money through their regional lending. Because they had entered the crisis with high capital ratios, MAS could state that the level of their non-performing loans did not threaten the financial health of any local bank. The state had no domestic banking problem to resolve. Geneva's crisis arose from domestic property lending and the governance of a public bank. In both cities the response included greater transparency and stricter supervision. The difference lies in the relationship between the crisis and the international business of the centre. In Singapore the crisis came from outside and prompted a strategy of global expansion. In Geneva the crisis was local, while the private banking business of the city continued largely undisturbed.

In figures

Floating of the Thai baht: 2 July 1997. Singapore dollar against the US dollar: S$1.4000 at the start of 1997, S$1.6775 at the end of 1997 (–16.5 %), low of S$1.8080 in January 1998. Straits Times Industrials Index: 2,216.79 (start of 1997), 1,073.47 (12 January 1998). Local banks' exposure to Malaysia, Indonesia, Thailand, Korea and the Philippines: S$37.2 billion or 16 % of total assets (end-1997). Regional NPL ratio

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of the local banks: 24.3 % (March 1999). Real GDP growth in 1998: +1.5 % (first estimate), −2.2 % (current World Bank series). Retrenchments in 1998: 29,086. Off-budget package of June 1998: S$2 billion. Cost-cutting package of November 1998: S$10.5 billion. CPF employer contribution: cut by 10 percentage points in January 1999. Singapore's pledges: US$1 billion for Thailand, US$5 billion for Indonesia. CLOB investors with Malaysian shares: 197,000 (31 August 1998).[5]

Notes

1. MAS, *Annual Report 1997/98*, p. 35. ↩
2. Norman Chan, "Asian Financial Crisis: Difficult Decisions in the Disposal of Shares After Stock Market Operation", *inSight*, Hong Kong Monetary Authority, 18 September 2019: operation from 14 to 28 August 1998; HK$118 billion, about 18 % of the Exchange Fund's assets; 33 Hang Seng Index constituent stocks; Norman Chan, *inSight*, HKMA, 18 September 2019: Tracker Fund of Hong Kong launched in November 1999, raising HK$33.3 billion. ↩
3. World Bank, World Development Indicators, NY.GDP.MKTP.KD.ZG, Hong Kong SAR: −5.88 % (1998), retrieved November 2026. ↩
4. Ressos, *Genève, place financière internationale*, Part E, section on retail banking: the BCGE, created on 1 January 1994; its history "marquée par une crise grave à la fin des années 1990, qui a conduit à une intervention coûteuse du canton"; Grand Conseil de la République et canton de Genève, PL 12238, bill tabled on 12 December 2017 by deputies Jean Batou and others, exposé des motifs: rescue law 8194 of 25 May 2000; reference to the Fondation de valorisation de la BCGE; cost of the rescue "capital et intérêts compris, à trois milliards et cent trente-sept millions de francs au 31 décembre 2016". ↩
5. Figures as documented in the preceding footnotes, in particular MAS, *Annual Reports 1997/98* and *1998/99*, the MAS parliamentary replies of 19 February 1998, 12 October 1998 and 6 July 1999, World Bank World Development Indicators and IMF Press Release No. 97/37. ↩

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