Regional consequences for banking and trade

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Provisioning, disclosure and the end of hidden reserves

The crisis exposed a weakness of the local banks that had little to do with their regional loans. Like many banks in Europe and Asia, they had long maintained hidden reserves, valuing their investments at book cost and disclosing little about their non-performing loans. In times of uncertainty such opacity is dangerous, because investors fear the worst. In June 1998 MAS accepted the recommendations of a private sector committee on banking disclosure. From the financial year 1998 the local banks stopped maintaining hidden reserves and disclosed the market value of their investments, their non-performing loans and their past and future provisions.[1]

MAS also began to publish the non-performing loans of the local banks every quarter, in view of the public's and the market's interest. The authority classified these changes as part of a wider move towards market discipline. In its view, information allowed investors to distinguish well-managed banks from weaker

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ones, which would benefit the industry as a whole.[2] The move from hidden reserves to transparency was the most lasting change in the culture of Singapore banking that the crisis produced.

Malaysia's capital controls and the CLOB freeze

The sharpest regional consequence for Singapore's investors came from Malaysia. For years, Singaporeans had traded Malaysian shares on CLOB International, an over-the-counter market operated in Singapore. On 31 August 1998 the Kuala Lumpur Stock Exchange announced new rules that affected this trading. On 1 September Malaysia imposed controls on offshore trading of the ringgit. Trading of the Malaysian shares held through CLOB was frozen.[3]

The figures for the number of investors diverge. Secondary accounts speak of 172,000 investors, while the government's reply to Parliament gave a higher figure for the end of August. As at 31 August 1998, some 197,000 investors held Malaysian shares on CLOB, about 90 per cent of them Singaporeans. CLOB had accounted for about 24 per cent of turnover on the Stock Exchange of Singapore in 1997. Trading was suspended on 4 September 1998 and resumed for only five trading days, from 9 to 15 September. During this window the discount of CLOB prices to Kuala Lumpur prices, about 9 per cent at the end of August, widened to 49 per cent on 3 September. The government declined to compensate the investors. It told Parliament that it could not protect investors from such risks, which they had to judge for themselves.[4] The long dispute that followed belongs to the history of Singapore's relations with Malaysia, examined in Chapter I.IV.

Singapore as creditor: Thailand and Indonesia

The crisis also showed Singapore in a new role, that of a regional creditor. At the meeting convened by the IMF in Tokyo on 11 August 1997, Singapore pledged US$1 billion to the Thai package, the same amount as Australia, Hong Kong and Malaysia. Japan pledged US$4 billion. MAS provided its contribution through a currency swap with the Bank of Thailand of up to US$1 billion for up to five years. At 31 March 1999 the outstanding principal amounted to US$793 million.[5]

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For Indonesia, Singapore committed US$5 billion as second-line financing to the IMF programme of November 1997. This matched the contribution of Japan and exceeded that of the United States, which pledged US$3 billion. When foreign banks stopped financing Indonesian trade, Singapore proposed a multilateral facility under which central banks would counter-guarantee guarantees by Bank Indonesia on letters of credit. MAS pledged US$2 billion from the existing commitment of US$5 billion, to be issued under section 23(1)(k) of the MAS Act.[6] The scheme was to proceed only if enough countries, including the major G-7 economies, took part. By 31 March 1999 MAS had not issued any guarantee under the facility.[7]

These commitments had a clear rationale. Singapore's prosperity depended on the stability of its neighbours, whose recovery was in its own interest. The trade guarantee proposal was also characteristic of Singapore's approach: it addressed a specific market failure, used the city's financial expertise and required the participation of the major powers.

The Asian dollar market and regional banking

The crisis interrupted the growth of the Asian dollar market, the offshore market whose origins Chapter C.IV describes. Its total assets still grew by 9.9 per cent to US$557.2 billion in 1997. In 1998 they contracted by 10 per cent to US$503.6 billion, mainly because loans to non-bank customers fell by 24 per cent. Syndicated lending had already contracted in 1997, when the number of approved syndications fell from 219 to 150.[8]

For the local banks, the crisis also created opportunities. As asset prices in the region collapsed, several banks in the crisis countries needed new capital. DBS acquired Thai Danu Bank in Thailand in March 1998, which increased its regional exposure and was reflected separately in the exposure figures reported to Parliament. The expansion of the Singapore banks into Southeast Asia after 1998, and the consolidation of the domestic banking sector that began with the merger of POSBank into DBS on 16 November 1998, are examined in Chapter D.IV.[9]

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From the Manila Framework to the Chiang Mai Initiative

The crisis also changed regional cooperation. In September 1997 Japan proposed an Asian Monetary Fund that would pool East Asian reserves and start at US$100 billion. Singapore was among the prospective members, but the United States and the IMF opposed the proposal on grounds of moral hazard and duplication. ASEAN finance ministers instead endorsed the Manila Framework in December 1997, which gave the IMF the lead role in regional rescues.[10]

Japan returned to the initiative with the New Miyazawa Initiative of 3 October 1998, a support package of US$30 billion. In May 2000 the finance ministers of ASEAN and China, Japan and Korea launched the Chiang Mai Initiative, which expanded the ASEAN Swap Arrangement and created a network of bilateral swaps.[11] Its multilateral successor reached US$240 billion in 2014. Since 2011 a regional surveillance office has supported it: the ASEAN+3 Macroeconomic Research Office, which became an international organisation headquartered in Singapore on 9 February 2016, as Chapter F.V explains.[12] The architecture of regional financial cooperation thus grew directly out of the experience of 1997.

Notes

1. MAS, *Annual Report 1997/98*, p. 69 (“Raising Bank Disclosure Standards”): from financial year 1998 the local banks would stop maintaining hidden reserves and disclose the market value of their investments, their NPLs and past and future provisions; equity accounting for associated companies from financial year 1999. ↩
2. MAS, Parliamentary reply of 12 October 1998: MAS “will release such data henceforth on a quarterly basis”; MAS, *Annual Report 1997/98*, p. 69. ↩
3. MAS, *Annual Report 1998/99*, calendar of events (31 August and 1 September 1998); Wikipedia, “1997 Asian financial crisis” (accessed November 2026), section on Malaysia: suspension of trading of CLOB counters, freezing shares worth about US$4.47 billion and affecting 172,000 investors, mostly Singaporeans. ↩

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4. MAS, Parliamentary reply, “DPM Lee's Reply to Parliamentary Question on CLOB”, 12 October 1998; MAS, Parliamentary reply of 12 October 1998 on CLOB: “The government cannot protect investors from such risks.” ↩

5. International Monetary Fund, Press Release No. 97/37, “IMF Approves Stand-By Credit for Thailand”, 20 August 1997: pledges at the Tokyo meeting of 11 August 1997 from Japan (US$4 billion), Australia, Hong Kong, Malaysia and Singapore (US$1 billion each), Indonesia and Korea (US$0.5 billion each); MAS, *Annual Report 1998/99*, notes to the financial statements, “Financing Package”: swap transactions with the Bank of Thailand “up to a maximum of US$1 billion for a maximum period of 5 years”; outstanding principal of US$793 million as at 31 March 1999 (US$680 million a year earlier). ↩

6. Han, “The CMI and CMIM”, p. 714, Table 26.2 (second line of defence, Indonesia, November 1997: Japan US$5.0 billion, Singapore US$5.0 billion, United States US$3.0 billion); see also Reserve Bank of Australia, *Semi-Annual Statement on Monetary Policy*, May 1998, Box A, Table A1; MAS, Parliamentary reply, “Indonesian Trade Guarantee Facility”, 19 February 1998: MAS “will pledge US$2 billion towards the Indonesian Trade Finance Guarantee Facility”, funded from the earlier US$5 billion contribution; guarantees issued by MAS under section 23(1)(k) of the MAS Act; the President's approval under Article 22B(6) and (7) of the Constitution not required. ↩

7. MAS, Parliamentary reply, “Government's Efforts to Assist Indonesia”, 19 February 1998; MAS, *Annual Report 1998/99*, notes to the financial statements, “Financing Package”. ↩

8. MAS, *Annual Report 1997/98*, p. 81; MAS, *Annual Report 1998/99*, section “Asian Dollar Market (Asian Currency Units)”: total assets contracted by 10 % to US$503.6 billion at end-1998; loans to non-bank customers fell by 24 % to US$131.8 billion; MAS, *Annual Report 1997/98*, p. 83: 150 applications with a loan value of S$13.2 billion in 1997, compared with 219 (S$16.4 billion) in 1996. ↩

9. MAS, Parliamentary reply of 12 October 1998: exposure excluding “Thai Danu Bank assets acquired by DBS in March 1998”; MAS, *Annual Report 1998/99*,

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calendar of events (16 November 1998: "POSBank merges with the Development Bank of Singapore"). ↩

10. Han, "The CMI and CMIM", p. 716: the AMF proposal "to set up a regional backstop starting at USD 100 billion"; prospective members included Singapore; the US and the IMF were against it, "citing a moral hazard problem"; MAS, *Annual Report 1997/98*, calendar of events, p. 24 (1 December 1997). ↩
11. Han, "The CMI and CMIM", pp. 719 and 723: New Miyazawa Initiative announced on 3 October 1998 with a package "totaling USD 30 billion"; CMI launched in May 2000 (Joint Ministerial Statement, Chiang Mai, 6 May 2000). ↩
12. Han, "The CMI and CMIM", pp. 734 and 737: AMRO has complemented the CMIM "since 2011"; total size increased to USD 240 billion in 2014; Ministry of Finance Singapore, "ASEAN+3 Macroeconomic Research Office – Singapore Hosts First ASEAN+3 International Organisation", press release, 19 February 2016: agreement establishing AMRO took effect on 9 February 2016; AMRO headquartered in Singapore. ↩

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