Singapore's exposure and resilience

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Channels of transmission

Singapore was hurt less than its neighbours, as the Deputy Prime Minister and chairman of MAS, Lee Hsien Loong, explained in Tokyo in September 1998. The city had no excessive foreign borrowing and no unsound banks. Its problem was its close interdependence with the crisis economies of Southeast Asia, which as a small and open economy it felt immediately.[1] The shock travelled through four channels: trade, bank lending, the financial markets and confidence.

Trade was the first channel. Singapore's links with its neighbours had strengthened in the years before the crisis. Between 1992 and 1996, the share of Malaysia, Thailand and the Philippines in Singapore's total exports rose from 20 per cent to 26 per cent, while their share of imports rose from 19 per cent to 22 per cent. As the regional economies cut their spending on consumer and capital goods, re-exports to ASEAN slowed. Tourism, air transport and retail trade suffered from the fall in visitors. A global downturn in electronics, Singapore's largest manufacturing industry, compounded the regional shock.[2]

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The banks' regional loans

The second channel was bank lending. The local banks had expanded into the region during the boom years, through branches, subsidiaries and loans to regional companies. Replying in Parliament in February 1998, the government disclosed that the six local banking groups had loans and investments of S$37.2 billion in Malaysia, Indonesia, Thailand, Korea and the Philippines at the end of 1997, equal to 16 per cent of their total assets. About two-thirds of this exposure was in Malaysia. Exposure to Indonesia, the most troubled economy, amounted to S$5.4 billion or 2.3 per cent of total assets.[3]

The quality of these loans deteriorated rapidly. Classified loans to the five countries stood at 5.7 per cent of loans to them at the end of 1997. After setting aside S$1.6 billion in provisions from their 1997 earnings, the banks expected their aggregate earnings to fall by about 30 per cent. The government emphasised that all six banks remained financially sound, with capital exceeding 12 per cent of risk-weighted assets. By the end of August 1998, non-performing loans to the five countries had risen to 17 per cent of loans to them. Total non-performing loans of the local banks, including domestic and other loans, reached 6.1 per cent.[4]

The deterioration continued into 1999. At the end of March 1999 the regional non-performing loan ratio of the local banking groups, now five after the consolidation of 1998, reached 24.3 per cent, while total non-performing loans stood at 8.0 per cent. Provisions covered 72 per cent of regional non-performing loans at the end of 1998. The figures were high. The government nevertheless maintained that they did not threaten the financial health of any local bank, partly because the banks wrote off loans late and classified restructured loans as non-performing.[5]

The currency, the stock market and property

The third channel was the financial markets. The Singapore dollar began 1997 at S$1.4000 to the US dollar and stood at S$1.4300 at the end of June. After the baht was floated, the US dollar's rise accelerated. By the end of the year the Singapore dollar had weakened by 16.5 per cent to S$1.6775.[6] It reached its low of S$1.8080 in

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January 1998, at the height of the regional crisis. Against the currencies of its neighbours, by contrast, it rose sharply during 1997: by 53.8 per cent against the baht, 28.3 per cent against the ringgit and 81.0 per cent against the rupiah.[7]

The stock market fell steeply. The Straits Times Industrials Index opened 1997 at 2,216.79 and closed the year at 1,529.84, a fall of 31 per cent. Within ten days in January 1998 it lost another 456 points, reaching 1,073.47 on 12 January.[8] The new Straits Times Index, which replaced the old index on 31 August 1998, fell to a ten-year low of 805.04 on 4 September 1998, amid confusion about Malaysian shares traded in Singapore. Property prices also fell. An index of residential property prices published by the Bank for International Settlements fell by more than a quarter between the first and the fourth quarter of 1998.[9]

The real economy

The fourth channel was confidence, which linked the financial shock to the real economy. Growth remained high in 1997, at 7.8 per cent according to the first estimate, because the effects of the regional crisis spilled over into Singapore only towards the end of the year. Quarterly growth fell from 10.7 per cent in the third quarter of 1997 to an estimated 1.6 per cent in the second quarter of 1998. Employment contracted by 1.1 per cent in 1998, the first decline in the number of employed persons since 1985. Retrenchments reached 29,086, while the electronics industry alone accounted for 18,400 of the net job losses in manufacturing.[10]

The financial sector itself experienced the crisis in two phases. In 1997 the turmoil generated business: the surge of activity in the equity and foreign exchange markets before and immediately after the outbreak of the crisis lifted the growth of financial services to 15 per cent for the year. In 1998 the effect reversed. MAS expected the sector to contract, because the regional economies were curtailing their investment and infrastructure projects, which reduced financing in the Asian dollar market. The retreat of Japanese banks, which were consolidating their international business as their domestic problems unfolded, aggravated the decline. The sector duly

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contracted by 0.5 per cent in 1998.[11] For a centre whose banks and markets lived largely on regional business, the shrinking of the region was the most serious threat. It explains why the authorities looked beyond the region for new sources of growth.

The measured size of the recession has changed with later revisions of the national accounts. MAS reported in 1999 that real GDP had grown by just 1.5 per cent in 1998, compared with 8.0 per cent in 1997. The current series of the World Bank shows growth of 8.3 per cent in 1997 and a contraction of 2.2 per cent in 1998, followed by growth of 5.7 per cent in 1999.[12] The gap of almost four percentage points for 1998 results from later revisions of the national accounts. Contemporaries therefore saw a sharp slowdown, whereas the revised figures show a genuine recession, although a short one.

Why Singapore did not fall

Singapore's resilience rested on fundamentals that MAS listed at the time: budget and current account surpluses, high savings, low inflation, large foreign reserves without foreign public debt and a sound financial system. Official reserves stood at about US$71 billion at the end of 1997 and US$75 billion at the end of 1998. The current account surplus rose from 15.6 per cent of GDP in 1997 to 21.8 per cent in 1998.[13] The country had little to fear from a sudden stop in foreign lending, because the state did not borrow abroad and the economy as a whole was a net creditor.

Two institutional features added to this strength. The locally incorporated banks were well capitalised, with capital adequacy ratios of more than 12 per cent based solely on core capital, as the Banking Act required. The policy of not internationalising the Singapore dollar also limited the ability of foreign speculators to borrow the currency for short sales, as the government reaffirmed in February 1998. Its reasoning was that wider foreign holdings would reduce official influence over the exchange rate and make the currency more vulnerable to speculative attack, a risk that a small and open economy could not afford.[14]

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Common misconception

It is often said that Singapore passed through the Asian crisis unscathed. Its banks did remain sound and its currency fell far less than those of its neighbours. Yet the revised national accounts show a contraction of about 2 per cent in 1998, employment fell for the first time since 1985, share prices fell to a ten-year low and property prices dropped by more than a quarter within a year. The government responded with a cost-cutting package worth several per cent of GDP. Singapore's achievement lay in the speed of its adjustment, which allowed growth to resume in 1999.

Notes

1. Lee Hsien Loong, speech of 30 September 1998, para. 9. ↩
2. MAS, *Annual Report 1997/98*, p. 40 (“Singapore's Trade Linkages”), with footnote 2 defining ASEAN-3 as Malaysia, Thailand and the Philippines; MAS, *Annual Report 1997/98*, pp. 29 and 37–38. ↩
3. MAS, Parliamentary reply, “Loan Exposure of Financial Institutions to Regional Economies”, 19 February 1998 (mas.gov.sg): exposure of S$37.2 billion (16 % of total assets) as at 31 December 1997; Malaysia about two-thirds; Indonesia S$5.4 billion (2.3 %). ↩
4. MAS, Parliamentary reply of 19 February 1998: classified loans of 5.7 % (S$2.0 billion); provisions of S$1.6 billion from 1997 earnings; expected fall in earnings of about 30 %; capital positions “exceeding 12% of their risk-weighted assets”; “all six banks are financially sound”; MAS, Parliamentary reply, “DPM Lee's Reply to Parliamentary Questions on Non-Performing Loans of Local Banks in Singapore”, 12 October 1998: as at 31 August 1998, exposure of S$37.3 billion (about 15 % of total assets); NPLs to the five countries 17 % (S$5.9 billion); total NPLs 6.1 %. ↩
5. MAS, Parliamentary reply, “DPM Lee's Reply to Parliamentary Question on Non-Performing Loans of Local Banks”, 6 July 1999: gross exposure of S$34.7 billion (12.5 % of total assets) as at 31 March 1999; regional NPL ratio 24.3 %

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(23.3 % in December 1998, 17.8 % in September 1998); total NPLs 8.0 %; provisions of 72 % of regional NPLs as at 31 December 1998; MAS, Parliamentary reply of 6 July 1999: "The level of NPLs does not threaten the financial health of any of the local banks". ↩

6. MAS, *Annual Report 1997/98*, pp. 49–50. ↩
7. MAS, *Annual Report 1998/99*, section "Exchange Rate Developments": "The Singapore Dollar weakened to a low of 1.8080 against the US Dollar at the height of the regional crisis in January 1998."; MAS, *Annual Report 1997/98*, p. 52. ↩
8. MAS, *Annual Report 1997/98*, pp. 83–84; MAS, *Annual Report 1998/99*, section "Equity Market": the STII "plunged 456 points (or 29%) to 1,073.47" within ten days. ↩
9. MAS, *Annual Report 1998/99*, section "Equity Market": the STI debuted at 885.26 on 31 August 1998 and fell to "a 10-year low of 805.04 on 4 September 1998"; Bank for International Settlements, Residential Property Prices for Singapore (index 2010 = 100), series QSGN628BIS via FRED, Federal Reserve Bank of St Louis (accessed November 2026): 73.98 in Q1 1998 and 53.81 in Q4 1998. ↩
10. MAS, *Annual Report 1997/98*, p. 29; MAS, *Annual Report 1998/99*, section "The Labour Market": employment contracted by 1.1 % in 1998; retrenchments of 29,086; decline of 23,384 employed persons; electronics accounted for 18,400 net job losses. ↩
11. MAS, *Annual Report 1997/98*, pp. 35 and 37: financial services growth of 15 % in 1997 spurred by "the resulting surge in activity in the equities and foreign exchange markets"; the sector "is likely to experience a contraction" in 1998, "exacerbated by a consolidation of Japan's international banking activity"; MAS, *Annual Report 1998/99*, p. 62 ("Growth of the Financial Sector"): "The sector contracted by 0.5% in 1998, compared with 15.3% growth in 1997." ↩

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12. MAS, *Annual Report 1998/99*, Chairman's Statement, p. 9; World Bank, World Development Indicators, NY.GDP.MKTP.KD.ZG, Singapore: 8.32 % (1997), –2.19 % (1998), 5.72 % (1999), retrieved November 2026. ↩
13. MAS, *Annual Report 1997/98*, p. 50; World Bank, World Development Indicators, FI.RES.TOTL.CD (total reserves including gold) and BN.CAB.XOKA.GD.ZS (current account balance, % of GDP), Singapore, 1996–1999, retrieved November 2026. ↩
14. MAS, *Annual Report 1997/98*, pp. 75–76: locally incorporated banks "are well capitalised with capital adequacy ratios of more than 12% based solely on core capital as required under the Banking Act"; MAS, Parliamentary reply, "Internationalisation of the Singapore Dollar", 19 February 1998: the rationale for not encouraging internationalisation "remains valid"; wider use would make "the currency more vulnerable in a speculative attack"; "As a small and open economy, we cannot afford this." ↩

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