The Asian Financial Crisis of 1997: summary

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The Asian financial crisis began with the floating of the Thai baht on 2 July 1997 and spread through Southeast Asia and Korea, causing output to collapse in the most affected economies in 1998. Singapore had no foreign public debt, large reserves and well-capitalised banks, yet its close links with the region transmitted the shock through trade, regional bank loans, the currency, the stock market and property, so that the revised national accounts show a contraction of about 2 per cent in 1998. MAS let the Singapore dollar fall against the US dollar while keeping its trade-weighted value broadly stable, and the government refused capital controls and support purchases of shares while cutting business costs through a S$2 billion package in June 1998 and a S$10.5 billion package in November 1998, centred on a reduction of employers' CPF contributions. The crisis brought higher disclosure standards for the local banks, the freezing of Singaporean holdings of Malaysian shares on CLOB and a new role for Singapore as a regional creditor to Thailand and Indonesia. Above all, it became the turning point at which Singapore moved from regulation to risk-focused supervision, opened its banking sector and committed itself to becoming a world-class financial centre.

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