The occupation economy and its currency

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The end of the colonial banking system

The occupation destroyed the banking system that Chapter B.II describes. Throughout Southeast Asia the Japanese shut down the banks associated with the Allied countries and eventually liquidated almost all European banks. Since these banks had dominated pre-war banking, deposit banking in the region was largely eliminated. In British Malaya, twelve enemy banks were liquidated under Japanese proclamations, among them the Hongkong and Shanghai Bank, the Chartered Bank and the Bank of China.[1]

The Yokohama Specie Bank became the agent of the Japanese government in Southeast Asia and the vehicle through which the military and the Ministry of Finance in Tokyo organised banking. Asian banks were allowed to reopen during 1942 and 1943, although they did relatively little business.[2] The Chinese banks of Singapore, whose history Chapter B.III traces, therefore survived as institutions but lost most of their function. Their deposits lost value with the currency, while their customers had little reason to lend or borrow in a money that everyone expected to depreciate.

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Some Chinese bankers had prepared for the war with foresight. Tan Chin Tuan of the Oversea-Chinese Banking Corporation moved the deposits, stocks and securities of the bank from Singapore to Britain before the occupation and duplicated its records as a precaution against wartime damage. In 1942 he was entrusted with re-establishing the head office of OCBC in China and travelled by way of Batavia and Rangoon overland to Chungking.[3] The episode shows an early form of the business continuity planning that regulators now require. A bank that kept its assets and records outside the reach of the occupying power could resume business after the war with its balance sheet largely intact.

Banana money

The currency board that had issued the Malayan dollar since 1939 could not serve the occupier. That system, established after the Blackett Report, had issued a dollar at par with the Straits dollar and linked to sterling at two shillings and four pence. Its reserves were held in London and lay beyond Japanese control. The occupying power therefore issued its own currency. Military notes denominated in dollars were issued at par with the Malayan dollar and entered circulation in 1942.[4]

The notes became known as banana money, a derisive name taken from the banana tree on the ten-dollar note. Their print quality was poor, as the Japanese themselves acknowledged when they called it “appalling”. It deteriorated further as the war continued. Many notes carried no serial numbers, which made counterfeiting widespread. From April 1942, and in some areas only from 1943, the Southern Regions Development Bank, a specialist institution originally created to finance resource development, took over the issue. The notes remained identical and were still printed in Tokyo.[5]

Upon occupation, one of Japan’s first acts was to revalue the yen and to set one unit of each Southeast Asian currency equal to one yen. Compared with the exchange rates of 1937, the yen gained between 35 and 101 per cent against the currencies of the region, which made the goods of Southeast Asia cheap for Japan.[6] The exchange rate was thus the first instrument of extraction, while the printing press soon became the second.

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From parallel circulation to monopoly

During the first year or so of the occupation, the pre-war colonial currencies were allowed to circulate at par alongside the military notes. Gresham's law did its work, since residents spent the new notes and kept the old ones, so that British currency remained legal tender while rapidly vanishing from the open market. By 1943 the economy ran on Japanese notes. From around late 1942 the Japanese administration added coercion. Once it had outlawed the use of pre-war currencies, their mere possession became a criminal offence that could be punished with arrest, often torture, or even death.[7]

The monopoly of the occupation currency rested on more than force. Japanese monopoly buying organisations became the only market for rubber and tin, whose export markets had disappeared. Producers and labourers working for the Japanese were paid in scrip. Nearly everyone needed scrip to pay taxes, to obtain rationed goods and to buy lottery tickets.[8] The banana note was thus a means of payment that people used every day without trusting it. That distinction between the transaction function and the store-of-value function of money lies at the centre of the experience.

Printing presses and prices

The Japanese administration financed itself principally by printing money for its own needs. Whenever it needed funds it printed more notes, so that the currency depreciated with each new issue. Kratoska put the note issue of the Southern Regions Development Bank, the *Nanpo Kaihatsu Kinko*, at $3,816,794,000 as at 10 August 1945. The pre-invasion British issue, by comparison, amounted to $238,804,963.[9] The two figures cover different territories and dates, so they cannot be compared precisely. Their order of magnitude nonetheless shows the scale of the issue.

Economic historians have reconstructed the relationship between money and prices with greater precision. According to Huff and Majima, the money supply of Malaya was 25.1 times larger at the end of the occupation than at its beginning, while prices

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in Singapore had risen 11,226.5 times. Prices rose by an average of 16.3 per cent a month, by 30.5 per cent a month during the last year of the occupation and by 86.8 per cent a month during its last two months. Their price series for Singapore combines a Bank of Japan wholesale index with a cost of living index that the British authorities constructed after the war from Japanese records.[10]

The price of rice illustrates what these ratios meant for households. A hundred catties of rice, about sixty kilograms, cost $5 before the war and $5,000 by August and September 1945. Ration cards entitled adults to five kilograms of rice a month and children to two kilograms, although the adult ration was later cut by a quarter. Sweet potatoes, tapioca and yams became staple foods, while a black market emerged for rice, meat and medicine.[11]

Huff and Majima point out that the inflation, severe as it was, did not meet the strict definition of hyperinflation until the very end. Monthly inflation in Malaya reached the high twenties in 1945 but never approached 40 per cent until the final days of the war in August. The reason lay in the transactions demand for money described above. People continued to hold banana notes because they needed them for daily purchases, although they held as few as possible. By August 1945 real money balances in Malaya stood at 2.0 per cent of their level at the start of the occupation.[12]

The flight from money

Contemporary observers described the behaviour that these figures reflect. In 1946 the Malayan writer Chin Kee Onn noted that “only the most stupid were lulled into a sense of wealth” by holding large quantities of Japanese notes. Those who had amassed fortunes quickly turned them into commodities and substantial investments. Even clerks in Japanese banks apparently changed their pocket money into British currency when they had the opportunity.[13]

The value of the notes followed the news from the front. Chin observed that every Axis defeat and every visit of American B-29 bombers caused prices to jump, so that “Saipan, Iwojima, Manila, Rangoon, and Okinawa were inflation spring-boards”.

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Allied propaganda reinforced the effect by repeatedly stressing that the occupation currency would become worthless after Japan surrendered. Japanese analysts partly blamed this propaganda for the falling value of the notes.[14]

Where money kept a store-of-value function, that function passed to the pre-war currencies, exchanged among people who trusted each other. In Singapore, the Straits currency was used more widely on the black market.[15] This was a striking vote of confidence in an absent government. The issuer of the old currency had been defeated and expelled, yet its notes were still preferred because they were backed by reserves held outside the reach of the occupier and because people expected the British to return. The informal networks of trust that Chapter A.V described, built on clan, dialect and personal reputation, became the channels through which this hidden money circulated.

Lotteries, gambling and taxes

The Japanese administration tried to limit the inflationary effects of its spending by raising revenue. Taxes included "voluntary" gifts levied mainly on Chinese businessmen, lotteries, and taxes on gambling, amusement parks, cockpits, bicycles, hand carts, taxi dancers, restaurants and coffee shops. In March 1944 Malaya saw a "gigantic saving campaign".[16]

Lotteries played a prominent part in this effort. Under a military government that encouraged gambling, gambling dens appeared along the streets. In 1942 it issued Syonan lottery tickets at one dollar each, followed in 1943 by tickets sold throughout Malaya with the stated justification that two-fifths of the revenue would go to community welfare and public facilities. The prizes were provided by the Yokohama Specie Bank, the same institution that served as the financial agent of the occupation.[17] Lotteries absorbed purchasing power and gave the population a gamble on sudden wealth in a currency that steadily lost value. They also normalised a culture of speculation that sat uneasily with the habits of thrift on which a banking system relies.

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The collapse of the commodity economy

The real economy contracted at the same time as the currency collapsed. No GDP data exist for wartime Malaya, but Huff and Majima estimate that output probably fell by at least half. Rubber production in 1942 was about a quarter of its average for 1937 to 1939, while tin output in 1944 reached only 17.5 per cent of the level of the late 1930s. The commodity trade that Chapter B.IV examines, on which the prosperity of Singapore as an entrepôt had rested, came close to a standstill. Rubber and tin could be sold only to Japanese buyers. The last Japanese tanker convoy bound for Japan left Singapore on 19 March 1945.[18]

Notes

1. Gregg Huff and Shinobu Majima, "Financing Japan's World War II Occupation of Southeast Asia", University of Oxford Discussion Papers in Economic and Social History, No. 109, October 2012, 3 (published in revised form in *Journal of Economic History*, vol. 73, no. 4, 2013, 937–977): banks associated with Allied countries were shut down, leading to "the closure, and eventual liquidation, of almost all European banks", so that "deposit banking in Southeast Asia was largely eliminated". Paul H. Kratoska, "Banana Money: Consequences of the Demonetization of Wartime Japanese Currency in British Malaya", *Journal of Southeast Asian Studies*, vol. 23, no. 2, September 1992, 322–345, note 25 (reference notes consulted on Cambridge Core, November 2026): twelve enemy banks, including the Hongkong and Shanghai Bank, the Chartered Bank and the Bank of China, were liquidated under Japanese proclamations. ↩

2. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 3: Asian banks "were allowed to re-open during 1942 and 1943" but "did relatively little business"; the Yokohama Specie Bank became "the Japanese government's agent in Southeast Asia". ↩

3. ISEAS–Yusof Ishak Institute Library, "War Correspondence – A Record Group of the Tan Chin Tuan Private Papers" (accessed November 2026): Tan moved "the deposits, stocks and securities from Singapore to Britain prior to

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the Japanese Occupation", duplicated records, and in 1942 was "entrusted with the responsibility to re-establish OCBC's head office in China", travelling via Batavia and Rangoon to Chungking. ↩

4. Wikipedia, "Malayan dollar" (accessed November 2026): the Board of Commissioners of Currency, Malaya, "came into being in October 1938 following the Blackett Report"; the Malayan dollar was introduced in 1939, replacing the Straits dollar at par, at two shillings and four pence sterling. Wikipedia, "Japanese government-issued dollar in Malaya and Borneo" (accessed November 2026): the notes were issued at the same value as the Malayan dollar and entered circulation in 1942; residents were forced to use the new currency. ↩

5. Wikipedia, "Japanese government-issued dollar in Malaya and Borneo" (accessed November 2026): the currency was called "banana money" (Malay: *duit pisang*) after the banana tree motif on the ten-dollar note. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 4: print quality "was, the Japanese acknowledged, 'appalling' and it deteriorated as the war continued"; occupation currencies were called "banana money" in Malaya and Indonesia. Wikipedia, "Japanese government-issued dollar in Malaya and Borneo" (accessed November 2026): "Counterfeiting was widespread because many notes lacked serial numbers." Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 4: the Southern Regions Development Bank "started issuing scrip in April 1942, although in some areas not until 1943"; the notes "remained identical to those used by the military and the Yokohama Specie Bank and were still printed in Tokyo". ↩

6. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 3: Japan set "a unit of each of Southeast Asia's currencies equal to one yen"; compared with 1937 exchange rates, "the yen gained in value by between 35% and 101%". ↩

7. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 4: "Over the first year or so of the war in the military-occupied countries, pre-war colonial currencies were allowed to circulate at par

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alongside Japanese military scrip." Kratoska, "Banana Money", *Journal of Southeast Asian Studies*, vol. 23, no. 2, 1992, 322 (extract consulted on Cambridge Core, November 2026): pre-war British currency remained legal tender but rapidly vanished from the open market; by 1943 the economy ran on Japanese notes. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 5 and 20: scrip drove colonial money from open circulation through Gresham's law and "strong Japanese coercion beginning around late 1942"; possession of pre-war currencies "was deemed criminal and punishable with arrest, often torture, or even death". ↩

8. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 20–21: monopoly buying organisations "became effectively the only market for pre-war export staples like rubber and tin in Malaya"; nearly everyone needed scrip for taxes, rationed goods and lottery tickets. ↩

9. Wikipedia, "Japanese government-issued dollar in Malaya and Borneo" (accessed November 2026): the administration printed more notes to supply money on demand, causing hyperinflation and severe depreciation; Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 5: the transfer of resources to Japan through scrip "involved nothing more than printing the required amount of currency". Kratoska, "Banana Money", 1992, notes 3 and 14 (reference notes consulted on Cambridge Core, November 2026): the pre-invasion British issue, withdrawn and demonetised in 1948, was put at $238,804,963; the Japanese note issue by the Nanpo Kaihatsu Kinko reached $3,816,794,000 as at 10 August 1945. ↩

10. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 18 and Table 5: for Malaya, ratio of prices at the end of occupation to prices at its beginning 11,226.5; ratio of quantity of currency 25.1; average rise in prices 16.3 % per month, 30.5 % per month in the last year and 86.8 % per month in the last two months; prices are for Singapore. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, Appendix: prices for Singapore up to December 1944 from a Bank of Japan wholesale price index, linked to a cost of living index from "Validity of contracts entered into before and during the Japanese occupation", National

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Archives, Kew, CO853/726/3, constructed by British authorities after the war. ↩

11. Wikipedia, "Japanese occupation of Singapore" (accessed November 2026): rice rose from $5 per 100 catties (about 60 kg) to $5,000 by August–September 1945; ration cards allowed adults 5 kg and children 2 kg of rice a month; the adult ration was cut by 25 %. Wikipedia, "Japanese occupation of Singapore" (accessed November 2026): command-economy restrictions created a black market for rice, meat and medicine; sweet potatoes, tapioca and yams became staple foods. ↩

12. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 18: inflation in Malaya, "although in 1945 often at monthly levels in the high twenties, never approached 40% monthly inflation until the final days of the war in August". Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 19–20 and Table 5: "By August 1945 in Malaya, real balances stood at 2.0% of their level at the onset of occupation." ↩

13. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 21, quoting Chin Kee Onn, *Malaya Upside Down* (Singapore, Jitts & Co., 1946), 45: "only the most stupid were lulled into a sense of wealth"; others "who had amassed 'fortunes' quickly changed the paper money into commodities, and substantial investments". Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 21: "given the opportunity even the clerks in Japanese banks changed their pocket money into British currency". ↩

14. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 21, quoting Chin, *Malaya Upside Down*, 45: "Every time there was an Axis defeat, particularly Japanese defeats, prices of goods jumped up … Saipan, Iwojima, Manila, Rangoon, and Okinawa were inflation spring-boards". Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 19: Allied propaganda "repeatedly stressed that scrip would become worthless after Japan surrendered", a tactic Japanese analysts partly blamed for its falling value. ↩

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15. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 21: insofar as money remained a store of value, "this largely devolved to pre-war currencies exchanged among those considered trustworthy". Wikipedia, "Japanese occupation of Singapore" (accessed November 2026): on the black market, Straits currency was used more widely. ↩

16. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 10: "in March 1944 a 'gigantic saving campaign' in Malaya"; taxes "included 'voluntary' gifts, levied mainly on Chinese businessmen, lotteries, and taxes on gambling, amusement parks, cockpits, bicycles, hand carts, taxi dancers, restaurants and coffee shops". ↩

17. Roots.gov.sg (National Museum of Singapore), "A $1 'Syonan Shoken' lottery ticket", accession no. 1995-00520 (accessed November 2026): the Japanese military government encouraged gambling in Malaya; tickets first issued in 1942 at one dollar; in 1943 issued across Malaya, with two-fifths of revenue for community welfare and public facilities; prizes provided by the Yokohama Specie Bank Ltd. ↩

18. Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 14: Malayan GDP "probably fell by at least half and perhaps more"; by 1942 rubber production was about a quarter of its 1937–39 average; in 1944 tin output was "only 17.5% of late 1930s levels". Huff and Majima, "Financing Japan's World War II Occupation", Discussion Paper No. 109, 14: rubber and tin "became largely unsaleable except for Japanese buying"; ibid., 7: "the last Japanese tanker convoy for Japan left Singapore on 19 March 1945". ↩

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