Road to Recovery

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Road to Recovery

Singapore's Journey through the Global Crisis

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First published in Singapore in 2010 by ISEAS Publishing
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Website: http://bookshop.iseas.edu.sg

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ISEAS Library Cataloguing-in-Publication Data

Basu Das, Sanchita.
Road to recovery : Singapore's journey through the global crisis.
1. Global Financial Crisis, 2008-2009.
2. Financial crises—Singapore.
3. Singapore—Economic conditions.
4. Singapore—Economic policy.
5. Monetary policy—Singapore.
I. Title.
II. Title: Singapore's journey through the global crisis
HB3814 D22 2010

ISBN 978-981-4311-05-2 (soft cover)
ISBN 978-981-4311-04-5 (E-Book PDF)

Typeset by International Typesetters Pte Ltd
Printed in Singapore by Utopia Press Pte Ltd

For my parents

Contents

List of Tables

List of Figures

List of Boxes

Foreword

When I received the manuscript of this book from Ms Sanchita Basu Das, Lead Researcher for Economic Affairs in the ASEAN Studies Centre at the Institute of Southeast Asian Studies, I was, for a brief moment, reminded of the thoughts that ran through my head when I first heard the news of the collapse of Lehman Brothers. I felt at that time that the world was witnessing the beginning of something that may be a lot worse than any of the crises we have been through in our working lives. But nothing prepared me for the quantum of loss that the world suffered, both in financial and human terms.

There have been a lot of books written subsequently on what happened during those tumultuous days, and on the coordinated response of governments in the subsequent months. However, I was happy to see that this particular manuscript focuses on the actions taken specifically by Singapore policymakers to manage the effects of the crisis. Singapore has over the past few decades transformed itself into a major financial centre, a contemporary global city that attracts talents internationally. Yet, being a city that bridges the East and West, Singapore was one of the first in Asia to bear the brunt of the global crisis in 2008.

This book gives an insight into both the global crisis and the experience of Singapore. Aptly titled *The Road to Recovery*, it has indeed been a journey for the residents of this country, who endured pain and misery in the immediate aftermath of the crisis, but then slowly marched towards a recovery, albeit a fragile one. The directions to this path were of course led by the Singapore Government, who enacted Singapore's most radical budget ever in 2009. At the same time the Monetary Authority of Singapore kept a close watch on the currency to ensure it did not go through the same wild fluctuations that befell the G-10 currencies. As a result, when the global economy showed signs of turning around in the second quarter of 2009, Singapore was one of the first countries to benefit. Indeed the spectacular quarter-on-quarter growth in Q3-2009 was as much a testimony to the global recovery as to the immediate effects of the policy changes.

Ms Basu Das, an alumnus of NUS Business School, has written an accessible and comprehensive study on the crisis. The book presents a balanced opinion and provides a clear economic perspective for the city state in the post-crisis global economy. In addition, it gives a bird's eye view of the road map to the future for Singapore, which will hopefully make the country a lot more self sufficient than it has been in the past. The book will be suitable for academics as well as students of economics and policy studies. It will also be useful for those who are curious to know what happened behind the scenes during the crisis in the circle of policymakers. I hope you will enjoy reading and learning from the book!

Professor Bernard Yeung
Dean and Stephen Riady Distinguished Professor of Finance
NUS Business School

Acknowledgements

Writing this book has been a wonderful and enriching experience for me, which would not have been possible without the help, support, and advice of my colleagues and family. The Institute of Southeast Asian Studies (ISEAS), Singapore provided me with the platform to write a book on Singapore and the global economic crisis. For this I am grateful to ISEAS Director Ambassador K. Kesavapany who gave me the original inspiration to set about writing this book. I would like to thank Lee Poh Onn, Regional Economic Studies Programme Coordinator at ISEAS, for his encouragement and timely advice. Many thanks go also to Ambassador Rodolfo C. Severino, Head of the ASEAN Studies Centre at ISEAS, for his support and cooperation in letting me write the book in addition to my core responsibility in the centre. My sincere thanks to Triena Ong, Managing Editor of ISEAS Publishing, and Stephen Logan, Editor – Special Projects, for guiding me through the publishing process.

I owe my sincere gratitude to Manu Bhaskaran, Partner/Head of Economics Research, Centennial Group Holdings, for his valuable comments and advice on what I had got wrong or forgotten while writing the book. Thanks also go to Kee Rui Xiong, Economist at the Macroeconomic Surveillance Department of the Monetary Authority of Singapore, who read and gave feedback on sections of the draft manuscript. I am privileged to have the Foreword by Prof. Bernard Yeung, Dean of NUS Business School, which I earnestly acknowledge.

Writing this book was also a test for my family, and I am grateful for their support. I wish to thank my husband, Subhro, whose encouragement and understanding as well as his constructive comments were very important for the completion of this book. My son, Adi, gave me the break from work that made writing the book easier, and I thank him for that. I would also like to extend my appreciation to my in-laws, Amita and Subhrendu Das, for always reading my write-ups with interest. I truthfully thank my parents, Pratima and Sankar Nath Basu, who have always associated themselves to the fullest extent with all my work, both when I was a student and now when I am a professional. I dedicate this book to them.

Abbreviations

3mma	three-month moving average
ACU	Asian currency units
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AIG	American Insurance Group
ASEAN	Association of Southeast Asian Nations
AWS	Annual Wage Supplement
BIS	Bank of International Settlements
BLP	Bridging Loan Programme
bn	billion
CAR	capital adequacy ratio
CET	continuing education and training
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralization
CPF	Central Provident Fund
CPI	consumer price inflation
DBU	domestic banking units
ECB	European Central Bank
EDB	Economic Development Board
EIU	Economic Intelligence Unit
EME	emerging market economies
ESC	Economic Strategies Committee
EU	European Union
FDI	foreign direct investment
FGIP	Finance Graduate Immersion Programme
FTA	free trade agreement

FX	foreign exchange
FY	fiscal year (April–March)
G-20	Group of Twenty
G-3	United States, eurozone, and Japan
GDP	gross domestic product
GFSR	Global Financial Stability Report
GIC	Government Investment Corporation
GST	goods and services tax
H1-2008	first half of 2008
ILO	International Labour Organization
IMF	International Monetary Fund
IR	Integrated Resorts
IT	information technology
JCS	Job Credit Scheme
KLSE	Kuala Lumpur Stock Exchange
LIBOR	London Interbank Offered Rate
LHS	left hand side
MAS	Monetary Authority of Singapore
M&A	mergers and acquisitions
MEPS	MAS Electronic Payment System
MMA	month moving average
MNC	multinational corporation
MOF	Ministry of Finance
MOM	Ministry of Manpower
MRT	Mass Rapid Transit
MTI	Ministry of Trade and Industry
MVC	monthly variable component
NAFTA	North American Free Trade Agreement
NEER	nominal effective exchange rate
NII	net investment income
NODX	non-oil domestic exports

NPL	non-performing loans
NWC	National Wages Council
PIC	Productivity and Innovation Credit
PMETs	professionals, managers, executives, and technicians
Q1-2009	first quarter of 2009
q/q	quarter-on-quarter
R&D	research and development
RHS	right hand side
sa	seasonally adjusted
saar	seasonally adjusted annualized rate
SG$	Singapore Dollar
SIBOR	Singapore Interbank Offered Rate
SME	small and medium enterprises
SPUR	Skills Programme for Upgrading and Resilience
SRI	Special Risk-Sharing Initiative
STI	Straits Times Index
SWF	sovereign wealth fund
TARP	Troubled Assets Relief Programme
UEN	Unique Entity Number
UK	United Kingdom
U.S.	United States
US$	U.S. Dollar
WB	World Bank
WDA	Workforce Development Agency
WEO	*World Economic Outlook*
WIS	Workfare Income Supplement
YA	year of assessment
Y/Y	year-on-year

1
Introduction

From 2004 to the middle of 2007, the world economy was growing strongly, world trade was burgeoning, inflation was low, liquidity in capital markets was abundant, the financial sector was providing remarkable returns, profitability was high, and asset prices were rising.

Yet, there were a few things that were disregarded by economists and financial experts. First, the real estate prices were rising astronomically, particularly in the United States, and a growing securitization business[1] was facilitating a huge growth in credit. At the same time a major imbalance was surfacing. While one group of countries (Japan, China, and the oil-exporting countries) was saving too much, there were others like the United States, and Europe who were borrowing to finance consumption and investment. These developments were unsustainable and needed a very minor catalyst to cause havoc in the financial markets and the world economy.

In the end, it was the booming U.S. housing market which proved to be the nemesis. Low interest rates and abundant liquidity in the system encouraged banks and financial institutions, particularly in the United States, to lend to sub-prime borrowers. When the interest rates started to rise, a large proportion of borrowers began to default resulting in failure or huge losses by several large financial institutions. The U.S. crisis thereafter spread to other financial markets and spilled over to the real economy by end 2008, leading to recession in several economies across the globe.

Governments around the world were forced to act swiftly to avert the failure of their financial systems and arrest the decline of economic growth. Unprecedented steps in conducting monetary and fiscal policy were taken to fix the financial dislocation and the weakness in the economic system. Initially, central banks focused their attention on easing liquidity to alleviate tensions in the financial markets. They loosened the terms and availability of existing central bank facilities. Policy interest rates were cut by almost all countries. In addition to monetary policy, nations also dug into their fiscal policy measures. Being the epicentre of the crisis, the U.S. Government took the lead by sanctioning US$700 billion under the Troubled Assets Relief Programme (TARP) to strengthen the U.S. financial market. For most of the developing economies, the fiscal stimulus packages ranged from 2.0 per cent of 2008 gross domestic product (GDP) to a maximum of 8.0 per cent of 2008 GDP. The crisis also pushed forward initiatives at the regional levels. ASEAN (Association of Southeast Asian Nations) Plus Three[2] initiated the Chiang Mai Initiative Multilaterialization (CMIM) Agreement and created a useful US$120 billion currency swap and crisis management facility for regional economies.

Thus, as the crisis turned out to be more global in nature, policy responses became more coordinated, but remained informal. Policymakers across the world did almost the same thing at the same time and for the same reason.

All this set the stage for the global economy to expand again. The International Monetary Fund (IMF) has projected the global economy to grow by 3.9 per cent in 2010 and another 4.3 per cent in 2011. However, the pace of recovery across economies is expected to remain uneven and slow especially on concerns about willingness of governments to continue providing fiscal and monetary stimulus packages to their economies. Moreover, the key adjustments needed in the U.S. economy — Asia's largest market — are not happening very quickly and convincingly.

Many described the 2008 financial crisis as "unprecedented". This was mainly on account of:

1. The speed at which the events happened: In a space of just eighteen months starting middle of 2007, multiple events resulted in one of the greatest assaults on global economic stability. It was not simply a crisis for the world's largest private financial institutions, but a crisis for credit markets, property markets, and equity markets. By early 2009, global equity markets had lost approximately US$32 trillion in value since their peak, credit markets around the world had suffered acute squeeze, and housing prices plummeted in many countries.
2. The scale of the impact, which had become global: Though it started off as a financial crisis, it soon became a general economic crisis, which in turn led to an employment and social crisis. It was a crisis which was simultaneously individual, national, and global and affected both the developed and the developing countries in the world. According to