

The **Institute of Southeast Asian Studies (ISEAS)** was established as an autonomous organization in 1968. It is a regional centre dedicated to the study of socio-political, security and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment. The Institute's research programmes are the Regional Economic Studies (RES, including ASEAN and APEC), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS).

ISEAS Publishing, an established academic press, has issued more than 2,000 books and journals. It is the largest scholarly publisher of research about Southeast Asia from within the region. ISEAS Publishing works with many other academic and trade publishers and distributors to disseminate important research and analyses from and about Southeast Asia to the rest of the world.

Road to Recovery Singapore's Journey through the Global Crisis

Sanchita Basu Das



INSTITUTE OF SOUTHEAST ASIAN STUDIES Singapore First published in Singapore in 2010 by ISEAS Publishing Institute of Southeast Asian Studies 30 Heng Mui Keng Terrace Pasir Panjang Singapore 119614

E-mail: publish@iseas.edu.sg *Website*: http://bookshop.iseas.edu.sg

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the Institute of Southeast Asian Studies.

© 2010 Institute of Southeast Asian Studies, Singapore

The responsibility for facts and opinions in this publication rests exclusively with the author and her interpretations do not necessarily reflect the views or the policy of the publisher or its supporters.

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	ix
List	of Figures	xi
List	of Boxes	xiii
Step	eword by Prof Bernard Yeung, Dean and ohen Riady Distinguished Professor of Finance NUS Business School	XV
Ack	nowledgements	xvii
Abb	previations	xix
1.	Introduction	1
2.	Global Financial and Economic Crisis: Causes, Impact, and Policy Response	16
3.	Impact of Global Economic Crisis on Singapore	44
4.	Singapore's Policy Responses to the Global Economic Crisis	70
5.	Singapore Economic Perspective and Future Policy Directions	97
6.	Lessons Learnt	128
App	endix I: MAS Monetary Policy Statements	137
App	endix II: Key Budget FY2009 Initiatives	150

Appendix III: Summary of the ESC Key	181
Recommendations	
Appendix IV: Key Budget FY2010 Initiatives	190
References	217
Index	221
About the Author	228

viii

List of Tables

Table 1.1	Long-term Singapore Economic Growth Rate	10
Table 2.1	Current Account Balance of Selected Economies	20
Table 2.2	GDP Growth Rates during the Crisis	30
Table 2.3	Stock Market Crash and Exchange Rate Changes of Selected Countries	33
Table 2.4	Interest Rates in Selected Economies	38
Table 2.5	Fiscal Stimulus in Selected Countries/ Economic Regions	39
Table 3.1	Market-share of Singapore's Total Non- oil Exports	47
Table 3.2	Performance of Regional Currencies	49
Table 3.3	Selected Economic Indicators of Singapore	65
Table 3.4	Selected Indicators on Banking Sector Financial Soundness	66
Table 4.1	Singapore FY2009 Budget Statistics	78
Table 4.2	Revised Fiscal Position in FY2009	94
Table 5.1	World Economic Outlook Projections	100
Table 5.2	Long-term World GDP Outlook	101
Table 5.3	Fiscal Position in FY2010	121

List of Figures

Figure	1.1	ESC Key Strategies	11
Figure	2.1	Federal Funds Target Rate in the U.S.	18
Figure	2.2	Capital Flows to Emerging Market Economies	19
Figure	2.3	U.S. and European House Price Inflation	22
Figure	2.4	Estimates of Global Bank Write-downs, 2007–10	26
Figure	2.5	Three Months USD Interbank Rate	27
Figure	2.6	Selected U.S. Interest Rates	28
Figure	2.7	Global Trade Volumes of Goods and Services	30
Figure	2.8	Headline Inflation of Selected Regions	31
Figure	2.9	Change in Remittance Inflows	34
Figure	2.10	Major Equity Indices	42
Figure	3.1	Singapore GDP Growth Rate Fell Sharply	45
Figure	3.2	Contraction in Manufacturing Sector	46
Figure	3.3	Decline in External Trade	50
Figure	3.4	Foreign Direct Investment Fell	51
Figure	3.5	Drop in Tourist Arrivals	52
Figure	3.6	Subdued Inflation in Singapore	53

Figure 3	3.7	Stock Market Fell and Currency Depreciated	54
Figure 3	3.8	Sharp Fall in Singapore Property Price Index	55
Figure 3	3.9	Interbank Rates Spiked Briefly	56
Figure 3	3.10	Drop in Local Banks' Share Prices	58
Figure 3	3.11	Less Demand for Loans and Advances	58
Figure 3	3.12	NPL Ratio Deteriorated from Q4-2008	59
Figure 3	3.13	Profitability Indicators Showed Resiliency	60
Figure 3	3.14	CARs above MAS's Regulatory Requirement	60
Figure 3	3.15	Retrenchment Peaked in Early 2009	63
Figure 3	3.16	Highest Retrenchment in Manufac- turing	63
Figure 3	3.17	Rise in Unemployment Rate	64
Figure 4	4.1	MAS Maintaining a Neutral Exchange Rate Policy Stance	74
Figure 4	4.2	Singapore Corporate Rate Tax	82
Figure 4	4.3	Declining Unit Business Cost and Unit Labour Cost	92
Figure 4	4.4	Almost Neutral Fiscal Impulse	95
Figure 5	5.1	Singapore's NODX to Selected Regions	105
Figure 5	5.2	Exports Recovering for Most of the Markets	107
Figure 5	5.3	Labour Productivity by Industry	115

List of Boxes

Box 2.1	Chronology of Major Events	24
Box 4.1	Resilience Package	76
Box 4.2	Job Credit Scheme Helped to Lessen Impact on Job Cuts	79
Box 4.3	Special Risk-Sharing Initiative Encouraged Business Financing	83
Box 5.1	Key Proposals of the Economic Strategies Committee	116
Box 5.2	Singapore Budget - FY2010	119

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 postcrisis 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

FYfiscal year (April–March)G-20Group of TwentyG-3United States, eurozone, and JapanGDPgross domestic productGFSRGlobal Financial Stability ReportGICGovernment Investment CorporationGSTgoods and services taxH1-2008first half of 2008ILOInternational Labour OrganizationIMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment incomeNODXnon-oil domestic exports	FX	foreign exchange
 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 Trade and Industry MVC monthly variable component NAFTA North American Free Trade Agreement NEER nominal effective exchange rate NII net investment income 	FY	0 0
 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 Trade and Industry MVC monthly variable component NAFTA North American Free Trade Agreement NEER nominal effective exchange rate NII net investment income 	G-20	Group of Twenty
GFSRGlobal Financial Stability ReportGICGovernment Investment CorporationGSTgoods and services taxH1-2008first half of 2008ILOInternational Labour OrganizationIMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	G-3	
GICGovernment Investment CorporationGSTgoods and services taxH1-2008first half of 2008ILOInternational Labour OrganizationIMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	GDP	gross domestic product
GSTgoods and services taxH1-2008first half of 2008ILOInternational Labour OrganizationIMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	GFSR	Global Financial Stability Report
H1-2008first half of 2008ILOInternational Labour OrganizationIMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	GIC	Government Investment Corporation
ILOInternational Labour OrganizationIMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	GST	goods and services tax
IMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	H1-2008	first half of 2008
IMFInternational Monetary FundIRIntegrated ResortsITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	ILO	International Labour Organization
ITinformation technologyJCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	IMF	
JCSJob Credit SchemeKLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	IR	Integrated Resorts
KLSEKuala Lumpur Stock ExchangeLIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of Trade and IndustryMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	IT	information technology
LIBORLondon Interbank Offered RateLHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	JCS	Job Credit Scheme
LHSleft hand sideMASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	KLSE	Kuala Lumpur Stock Exchange
MASMonetary Authority of SingaporeM&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	LIBOR	London Interbank Offered Rate
M&Amergers and acquisitionsMEPSMAS Electronic Payment SystemMMAmonth moving averageMMAmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	LHS	left hand side
MEPSMAS Electronic Payment SystemMMAmonth moving averageMMCmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MAS	Monetary Authority of Singapore
MMAmonth moving averageMNCmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	M&A	mergers and acquisitions
MNCmultinational corporationMOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MEPS	MAS Electronic Payment System
MOFMinistry of FinanceMOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MMA	month moving average
MOMMinistry of ManpowerMRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MNC	multinational corporation
MRTMass Rapid TransitMTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MOF	Ministry of Finance
MTIMinistry of Trade and IndustryMVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MOM	Ministry of Manpower
MVCmonthly variable componentNAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MRT	Mass Rapid Transit
NAFTANorth American Free Trade AgreementNEERnominal effective exchange rateNIInet investment income	MTI	Ministry of Trade and Industry
NEERnominal effective exchange rateNIInet investment income	MVC	monthly variable component
NII net investment income	NAFTA	North American Free Trade Agreement
	NEER	nominal effective exchange rate
NODX non-oil domestic exports	NII	net investment income
	NODX	non-oil domestic exports

Abbreviations

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 business¹ 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 Three² 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