



## Chapter 13

# FINANCIAL AND BUSINESS SERVICES

## FINANCIAL SERVICES

[Table 13.1]

### OVERVIEW

The financial services sector continued its robust growth in the last quarter of 2007, with a growth of 16 per cent compared with 20 per cent in the previous quarter. This brought full-year growth to 17 per cent compared with 11 per cent in 2006, reflecting a broad-based strengthening of activity across all major segments.

In line with the generally positive investment climate for most of 2007, sentiment-driven segments proved to be a key pillar of support. Turnover volume in the domestic bourse surged 113 per cent, up from an increase of 57 per cent in 2006. Trading activity in the foreign exchange market expanded by 31 per cent, as investors sought to rebalance their currency exposures in light of volatility in the international currency markets. The fund management industry also posted firm gains, reflecting in part growing investor interest in Asian equities and rising affluence in the region. On the bank lending front, both the domestic and offshore segments enjoyed double-digit gains on the back of robust growth in interbank and non-bank lending. The insurance industry reversed the contraction in 2006 to post a 13 per cent expansion, boosted partly by rapid premium growth in the life insurance segment.

*The financial services sector enjoyed broad-based growth across all major segments...*

### FINANCIAL & BUSINESS SERVICES SECTORS

[TABLE 13.1]

|   | 2006  |        | 2007    |         |         |         | 2007   |
|---|---|--------|---------|---------|---------|---------|--------|
|   | 4th Qtr   | Annual | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr | Annual |
|   | Percentage Change Over Same Period Of Previous Year |        |         |         |         |         |        |
| <b>Financial Services</b>               |   |        |         |         |         |         |        |
| Value Added at 2000 Prices              | 13.0  | 10.6   | 14.5    | 17.0    | 20.1    | 15.9    | 16.9   |
| Money Supply (M1) <sup>1</sup>          | 13.4  | 13.4   | 14.8    | 22.5    | 23.9    | 22.4    | 22.4   |
| Deposits <sup>1</sup>                   |   |        |         |         |         |         |        |
| Banks <sup>2</sup>                      | 21.8  | 21.8   | 25.7    | 26.0    | 22.0    | 15.6    | 15.6   |
| Finance Companies                       | 12.3  | 12.3   | 20.5    | 23.8    | 33.2    | 41.1    | 41.1   |
| Loans & Advances <sup>1</sup>           |   |        |         |         |         |         |        |
| (including Bills Financing)             |   |        |         |         |         |         |        |
| Banks <sup>2</sup>                      | 6.3   | 6.3    | 10.3    | 10.3    | 12.8    | 20.0    | 20.0   |
| Finance Companies                       | 1.3   | 1.3    | 5.3     | 10.2    | 21.3    | 27.7    | 27.7   |
| Assets/Liabilities of ACUs <sup>1</sup> | 14.3  | 14.3   | 20.4    | 17.2    | 26.5    | 29.9    | 29.9   |
| <b>Business Services</b>                |   |        |         |         |         |         |        |
| Value Added at 2000 Prices              | 6.4   | 6.9    | 7.4     | 7.6     | 7.5     | 8.7     | 7.8    |

<sup>1</sup> End of Period

<sup>2</sup> Excludes Singapore Dollar Negotiable Certificates of Deposit.

Source: Singapore Department of Statistics  
Monetary Authority of Singapore

As at end-2007, there were 112 commercial banks, 50 merchant banks and 3 finance companies in the domestic financial sector.

### COMMERCIAL BANKS

[Tables 13.2, A14.1–A14.3 and Chart 13.1]

*Commercial banking recorded broad-based growth, with healthy expansions across most lending categories...*

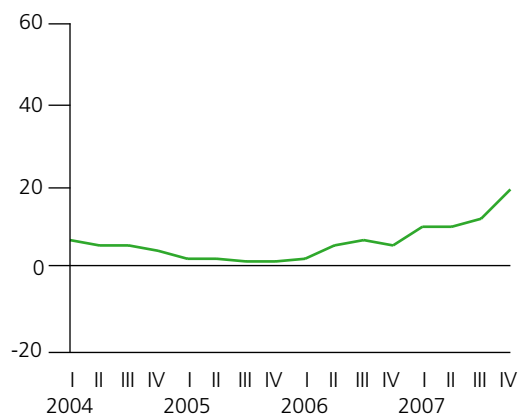
Total assets/liabilities of commercial banks rose by 14 per cent to reach \$581 billion. The robust expansion was buttressed by a surge in domestic non-bank lending and continued growth in interbank loans. Interbank credit increased by \$8.7 billion, driven mainly by loans between domestic banks while loans to banks outside Singapore remained generally flat.

### CHANGES IN BANK LOANS AND ADVANCES BY SECTOR (AT END OF PERIOD)

[Chart 13.1]

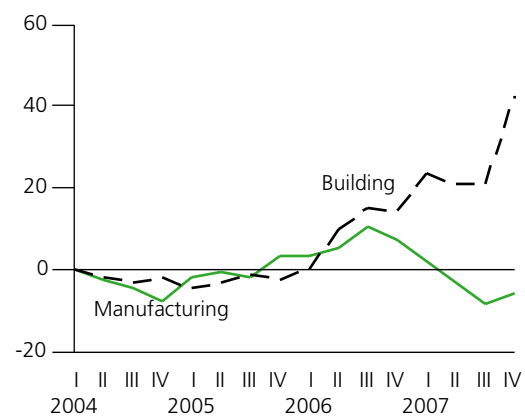
#### TOTAL

Per Cent



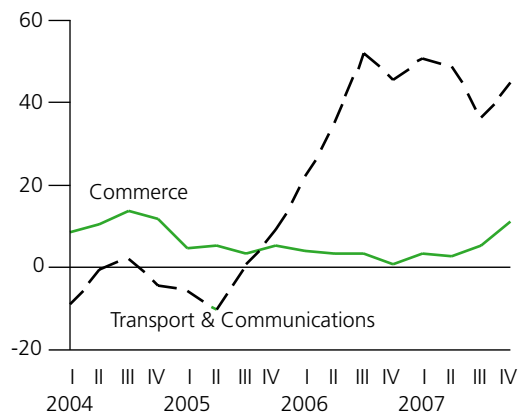
#### MANUFACTURING AND BUILDING

Per Cent



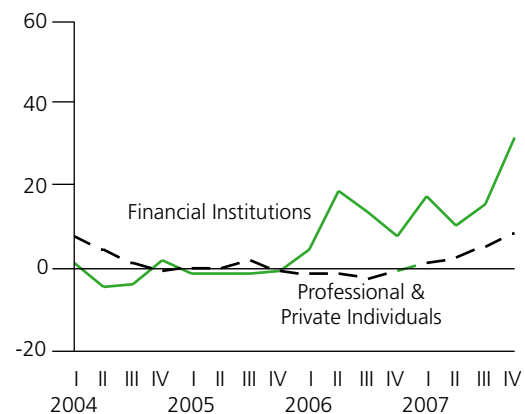
#### COMMERCE AND TRANSPORT & COMMUNICATIONS

Per Cent



#### FINANCIAL INSTITUTIONS AND PROFESSIONAL & PRIVATE INDIVIDUALS

Per Cent



## ASSETS AND LIABILITIES OF FINANCIAL INSTITUTIONS

[TABLE 13.2]

| Financial Institution               | 2005       | 2006  | 2007p | 2005                                    | 2006 | 2007p |
|-------------------------------------|------------|-------|-------|---|------|-------|
|                                     | \$ Billion |       |       | Percentage Change<br>Over Previous Year |      |       |
| <b>Commercial Banks<sup>1</sup></b> | 425.2      | 508.6 | 580.9 | 6.8                                     | 19.6 | 14.2  |
| <b>Finance Companies</b>            | 9.4        | 10.1  | 12.8  | 13.7                                    | 6.6  | 27.0  |
| <b>Merchant Banks<sup>1</sup></b>   | 6.2        | 7.4   | 8.3   | -8.5                                    | 19.9 | 12.8  |

<sup>1</sup> Refers to Domestic Banking Units only

Source: Monetary Authority of Singapore

Amid favourable economic conditions and buoyant business sentiments, loans to non-bank customers grew by 20 per cent to end the year at \$233 billion. This rapid expansion was in part due to the property boom, with lending to the building and construction segment surging by 42 percent and consumer housing loans growing 15 per cent. Credit extended to the transport and communications, business services and non-bank financial institutions segments also registered strong growth. In comparison, lending to the manufacturing industry contracted by 5.9 per cent.

*Partly resulting from the property boom, building and construction loans, and consumer housing loans grew strongly...*

Non-bank customer deposits continued to strengthen by 16 per cent, following a 22 per cent expansion in the previous year. This brought total non-bank deposits to \$315 billion as at end-December 2007. Fixed and savings deposits saw increases of \$17 billion and \$15 billion respectively, with demand deposits also posting a healthy increase of \$11 billion.

**FINANCE COMPANIES**

*Lending activity of finance companies surged on account of strong expansions in building and construction loans...*

Finance companies' total assets/liabilities expanded by 27 per cent to reach \$13 billion as at end-December, compared to 6.6 per cent growth in the previous year.

On the assets side, total loans and advances saw a significant expansion of 28 per cent to \$10 billion. Credit extended to the building and construction sector rose by 49 per cent to \$4.6 billion. Growth was also boosted by rapid expansions in hire-purchase financing for motor vehicles as well as loans to financial institutions, and professional and private individuals.

From the liabilities perspective, total deposits of non-bank customers grew by 41 per cent to end the year at \$10 billion, with the main impetus coming from fixed deposits.

## **MERCHANT BANKS**

*Merchant banking strengthened on account of stronger lending activity in both domestic operations and Asian Currency Units...*

Total assets/liabilities of merchant banks rose by 14 per cent, on the back of robust growth in both domestic and Asian Currency Unit (ACU) operations. Merchant banks' domestic operations grew 13 per cent while the offshore component recorded a 14 per cent expansion.

On the domestic front, loans and advances to non-bank customers posted an expansion of 59 per cent, following six consecutive years of low or negative growth. This more than offset the slight dip in domestic interbank loans which resulted mainly from a contraction in loans to banks in Singapore.

The strengthening of ACU activity was largely driven by a rise in interbank lending to banks in Singapore. Credit extended to non-bank customers remained flat in 2007.

## **ASIAN DOLLAR MARKET**

*Offshore banking business strengthened significantly, boosted by marked gains in non-bank and interbank lending activity...*

Total assets/liabilities of the Asian Dollar Market (ADM) recorded a marked increase of US\$209 billion to reach US\$907 billion in 2007. Assets/liabilities grew by 30 per cent, up from 14 per cent in the previous year. This was supported by firm gains in both the non-bank and interbank segments. In particular, non-bank loans grew by 44 per cent, driven by a 51 per cent expansion in loans to residents and a 37 per cent growth in loans to non-residents. Interbank loans grew by 23 per cent, largely reflecting the pickup in loans to the overseas segment against a generally favourable global business environment.

Likewise, the gain in overall liabilities was supported by increases in both non-bank and interbank liabilities. Non-bank deposits continued its uptrend, posting a US\$54 billion increase with a strong influx of funds from non-residents. Interbank liabilities surged this year with a US\$136 billion increase, the majority of which were to offshore institutions.

**INSURANCE INDUSTRY**

*Life insurance premiums and general insurance premiums rose to higher levels...*

Total new business premiums<sup>1</sup> of the direct life insurance industry grew by 28 per cent to \$10 billion in 2007, reflecting the healthy growth in both single premium and regular premium businesses. This was mainly due to steady growth in the sales of investment-linked products. Single premium business grew by 28 per cent to \$9.4 billion while regular premium business rose by 31 per cent to \$996 million.

Premiums in the general insurance industry rose to \$6.1 billion, with offshore and domestic business accounting for \$3.5 billion and \$2.6 billion of gross premiums<sup>2</sup> respectively. However, operating profits dropped by 7.0 per cent to \$1.2 billion, as intense competition following a year of good profits exerted downward pressure on premium rates. This was especially evident in the domestic motor insurance market as the incurred loss ratio increased from 68 per cent to 85 per cent.

*The insurance industry reversed the previous year's decline to post a healthy expansion in 2007...*

**CENTRAL PROVIDENT FUND BOARD**

*Members' CPF contributions rose further, although withdrawals fell...*

Members' contributions to the CPF increased by 9.9 per cent in 2007, following an increase of 2.7 per cent in the previous year. However, total withdrawals decreased by 19 per cent to \$12 billion, after showing a 22 per cent increase in 2006. This resulted in a net contribution of \$6.6 billion compared with the net contribution of \$2.2 billion in the preceding year.

Withdrawals for investment purposes decreased by 33 per cent to \$1.4 billion in 2007 compared to \$2.1 billion the previous year. In particular, withdrawals for housing purposes decreased by 30 per cent to \$5.9 billion.

Outstanding CPF balances due to members grew by 8.6 per cent, increasing from \$126 billion in 2006 to \$137 billion in 2007.

<sup>1</sup> Includes premiums from both individual and group life insurance businesses.

<sup>2</sup> Gross premium figures for the general insurance industry include gross premiums for the direct general insurance industry as well as the general reinsurance industry.

## **STOCK MARKET**

*The stock market performed well in 2007, notwithstanding a sharp correction at the onset of the sub-prime turmoil in August...*

The domestic stock market started off the year on an upbeat note, with the benchmark Straits Times Index (STI) on a steady uptrend. Despite sell-offs in the Wall Street and Chinese bourses in February, the STI quickly recovered one month later and continued on its ascent. Underpinned by firm corporate profits and strong inflows of funds into Asian bourses, the STI reached a peak of 3,665 on 24 July.

Investor sentiment was dampened mid-way into the third quarter due to the eruption of the sub-prime mortgage situation. The local bourse underwent a sharp correction in August as investors became more risk averse. The STI rebounded sharply towards the end of the third quarter, hitting a new high of 3,876 in early October as it became evident that regional and local markets were holding up. This was underpinned by robust domestic fundamentals and strong Asian economic growth.

Towards the end of the year, amid uncertainty over the extent of the sub-prime mortgage fallout, growing concerns over the slowing US economy and negative corporate earnings reports from international financial institutions, the STI began to trend down. Nonetheless, the STI ended 2007 at 3,482, 15 per cent higher than at the start of the year.

## **SECURITIES MARKET**

*Securities market activity saw continued growth in 2007...*

In 2007, turnover volume of securities traded on Singapore Exchange Securities Trading Limited (SGX-ST) rose by 113 per cent to 682 billion. Correspondingly, SGX-ST turnover value increased 101 per cent to \$603 billion. Growth was primarily driven by increased trading in foreign stocks and structured warrants.

New listings on the SGX Mainboard and SESDAQ (now renamed "Catalist") totalled 76 in 2007 compared to 60 in 2006. There were 16 delistings, 2 less than in 2006. At the end of 2007, a total of 762 companies were listed on the SGX Mainboard and SESDAQ, up from 734 listed companies in the preceding year.

The combined market capitalisation of companies listed on the SGX Mainboard and SESDAQ was approximately \$776 billion at the end of 2007. This represented a 32 per cent increase over a market capitalisation of about \$590 billion at end-2006.

Equity fundraising on SGX through initial public offerings, rights issues and placements totalled \$23 billion. This was a healthy 107 per cent increase over the \$11 billion raised in 2006. Bond issuance raised a total of S\$100 billion, a 16 per cent increase over 2006's \$86 billion, despite the tightening in debt markets in the second half of 2007.

## FINANCIAL FUTURES MARKET

*Trading volumes rose further, boosted by increased interest in Asian stock index futures...*

In 2007, the volume of financial futures contracts traded on Singapore Exchange Derivatives Trading Limited (SGX-DT) increased 21 per cent to 44 million, up from 36 million in 2006. Trading interest in the Nikkei 225 and MSCI Taiwan Index Futures contracts was strongest, with 36 million contracts (80 per cent of total volume) traded on SGX-DT. Worldwide market volatility contributed to the increase in futures turnover volumes as hedging activities increased.

MSCI Singapore Index Futures contracts saw significant growth in 2007. Turnover increased 81 per cent from 2.2 million to 4.0 million contracts. However, turnover in Euroyen interest rate contracts fell 46 per cent from 3.5 million to 1.9 million.

## FOREIGN EXCHANGE MARKET

*Foreign exchange activity rose further...*

The Singapore foreign exchange market posted an average daily turnover of US\$262 billion, an increase of 38 per cent compared to 2006.

Trading in the major currencies continued to dominate the Singapore foreign exchange market, with the US Dollar, Euro and Yen forming the bulk of foreign exchange trading. Trading in US Dollar/Singapore Dollar contributed about 10 per cent of the total turnover.

The US Dollar continued to weaken in 2007, depreciating 10 per cent against the Euro, 6 per cent against the Yen and 1 per cent against the Pound Sterling. The US Dollar was pressured by a deteriorating US economic outlook and interest rate cuts, although investors maintained a relatively robust global growth outlook. Speculation that central banks and sovereign wealth funds would diversify asset holdings also fuelled the US Dollar's decline.

## BUSINESS SERVICES SECTOR

[Table 13.1]

*Real estate activities turned in a sterling performance in 2007...*

On the back of healthy economic fundamentals and broad-based growth in 2007, the business services sector grew at its strongest pace in the past decade. Despite the uncertainty in global financial markets, the sector expanded robustly by 8.7 per cent in the fourth quarter, up from 7.5 per cent in the preceding period. This brought full-year growth to 7.8 per cent in 2007, improving from the 6.9 per cent gain in 2006.

*The business services sector grew at its strongest pace in the past decade...*

Underpinned by Singapore's attractiveness as a vibrant regional business hub, business representative office activities rose by 7.8 per cent in 2007. Professional services also registered healthy growth. Noteworthy is the architectural and engineering services segment which expanded by 7.0 per cent, buoyed by the strong tide of construction activities in 2007.

Nonetheless, the star performer of the sector was the real estate segment which enjoyed full-year expansion of 8.0 per cent. In a year characterised by record levels of transaction activity and launches in the private residential market, prices surged by 31 per cent, exceeding 2006's 10 per cent increase substantially. Growth has broadened out to the mass market segment which saw more uncompleted units sold in the outside central region compared to the core central region (including Districts 9 to 11, Downtown Core and Sentosa). In total, 2007's transactions have exceeded 2006's levels by 60 per cent.

In the office market, occupancy rates hovered above 93 per cent, the highest level since the third quarter of 1995. Reflecting rising office demand alongside tight short-term supply, rents in the Central Region rose by 56 per cent, up from 30 per cent in 2006. Shop rentals in the Central Region also increased by 18 per cent compared with 5.6 per cent in 2006, while vacancy rates continued to inch downwards from 7.7 per cent in 2006 to 7.2 per cent. Bolstered by strong demand for industrial space, industrial rents soared 32 per cent in 2007, eclipsing the 4.2 per cent gain in the previous year. Vacancy rates fell further from 9.3 per cent in 2006 to 8.2 per cent, the lowest level since the first quarter of 1988.

## **INVESTMENT COMMITMENTS**

[Table 13.3]

*Headquarters and professional services continued to lead commitments in total business spending...*

Investment commitments in services clusters promoted by the Economic Development Board (EDB) amounted to \$0.5 billion in terms of total business spending (TBS) in the last quarter of 2007. This brought full year investment commitments to \$3.0 billion, higher than the \$2.8 billion achieved in 2006. Almost 82 per cent of the total commitments came from foreign investors, with the US being the top investor with \$1.1 billion. Europe was next with \$1.0 billion followed by local investors with \$0.6 billion. Japanese commitments amounted to \$0.2 billion.

When the committed services projects become fully operational, they will generate value added of \$5.6 billion and create 11,700 jobs, of which 79 per cent are skilled jobs.

**SERVICES INVESTMENT COMMITMENTS BY CLUSTER, 2007**

[TABLE 13.3]

| Cluster   | Total Business Spending (\$ Billion) | Total Business Spending (%) | Value Added (\$ Billion) | Value Added (%) | Employment (No) | Employment (%) | Skilled & Above (%) |
|---|--------------------------------------|-----------------------------|--------------------------|-----------------|-----------------|----------------|---------------------|
| <b>Headquarters &amp; Professional Services</b> | 1.32                                 | 43.4                        | 2.48                     | 44.2            | 2,396           | 20.5           | 77                  |
| <b>InfoComms &amp; Media</b>                    | 0.62                                 | 20.4                        | 1.49                     | 26.6            | 2,575           | 22.0           | 77                  |
| <b>Logistics</b>                                | 0.28                                 | 9.2                         | 0.54                     | 9.6             | 2,103           | 18.0           | 43                  |
| <b>Engineering &amp; Environmental Services</b> | 0.64                                 | 21.1                        | 0.96                     | 17.2            | 3,514           | 30.0           | 95                  |
| <b>Education</b>                                | 0.14                                 | 4.6                         | 0.10                     | 1.8             | 970             | 8.3            | 98                  |
| <b>Healthcare Services</b>                      | 0.04                                 | 1.3                         | 0.03                     | 0.5             | 140             | 1.2            | 100                 |
| <b>TOTAL</b>                                    | 3.04                                 | 100.0                       | 5.60                     | 100.0           | 11,698          | 100.0          | 79                  |

Note: Figures may not add up due to rounding.

Source: Economic Development Board

Headquarters and professional services accounted for 43 per cent of TBS commitments. The projects committed for headquarters services would enable MNCs to centralize control functions in Singapore to manage regional operations. Other notable clusters include engineering and environmental services (\$0.6 billion), infocomms and media (\$0.6 billion), logistics (\$0.3 billion) and education services (\$0.1 billion).

*Contributed by:*

Policy and Research Department  
Central Provident Fund Board

Capital Markets Department  
Monetary Authority of Singapore

Economic Policy Department  
Monetary Authority of Singapore

Insurance Supervision Department  
Monetary Authority of Singapore

Reserve and Monetary Management Department  
Monetary Authority of Singapore

Corporate Planning  
Economic Development Board

Kuan Ming Leong  
Economist  
Economics and Strategy Division  
Ministry of Trade and Industry