

8.7

FINANCIAL SERVICES

OVERVIEW

Growth in the financial services sector declined sharply in the fourth quarter of 2008, contracting by 8.1 per cent compared to the double-digit growth rates in the first half of the year, and the 5.6 per cent growth in the preceding quarter.

For the whole of 2008, growth in the financial services sector reached 5.5 per cent, compared to 16 per cent in the previous year. The relatively weaker performance in 2008 reflected a moderation in the pace of growth across most of the major segments, as the effects of the global financial crisis and economic slowdown spilled over into the domestic financial sector.

COMMERCIAL BANKS

Total assets/liabilities of commercial banks rose by 15 per cent to reach \$668 billion at end-2008 (Exhibit 8.20). The robust expansion was supported by continued gains in both the interbank and non-bank lending segments. Interbank credit increased by 12 per cent, on the back of rapid growth in lending to banks outside Singapore.

Loans to non-bank customers remained firm, growing by 17 per cent to close the year at \$272 billion (Exhibit 8.21). The expansion was in part due to a steady pipeline of property loans, with lending to the building and construction segment surging by 33 per cent, and consumer housing loans growing by 8.8 per cent. Meanwhile, credit extended to the manufacturing, general commerce, and business services segments also registered positive gains. In comparison, share financing loans contracted by 55 per cent, falling sharply as equity markets became more volatile.

Non-bank customer deposits rose by 10 per cent in 2008, bringing the total non-bank deposit base to \$348 billion at end-December. While savings deposits and demand deposits continued to post increases of \$23 billion and \$10 billion respectively, fixed deposits remained flat on falling interest rates and stronger liquidity preferences amid the uncertain external environment.

Exhibit 8.20: Total Assets and Liabilities of Commercial Banks

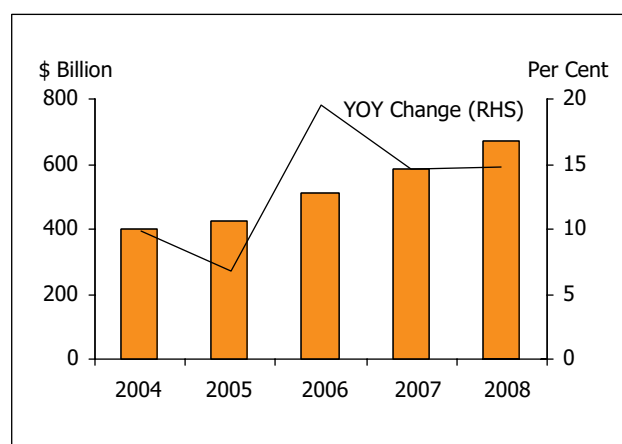
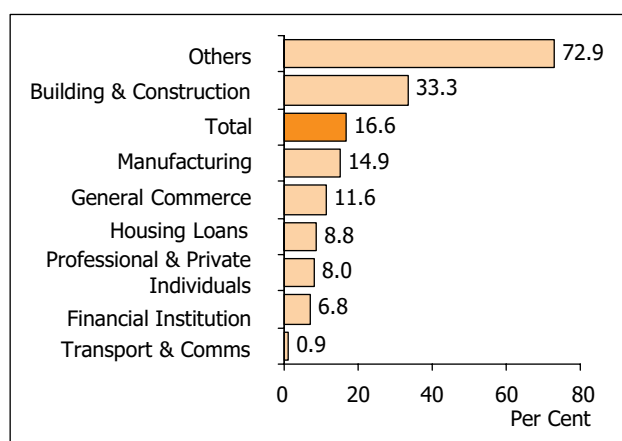


Exhibit 8.21: Growth of Bank Loans and Advances to Non-Bank Customers by Industry in 2008



FINANCE COMPANIES

Finance companies' total assets/liabilities slipped by 1.5 per cent to \$12.6 billion in 2008, due to a mild decrease in total loans and advances ([Exhibit 8.22](#)).

On the assets side, total loans and advances recorded a 4.3 per cent decline to \$9.7 billion ([Exhibit 8.23](#)). Credit extended to the building and construction industry and the transport, storage and communications cluster increased by 11 per cent each, while hire-purchase loans rose by 1.6 per cent. These gains partially offset declines in loans to other sectors, such as manufacturing, non-bank financial institutions, and general commerce, which posted double-digit contractions.

From the liabilities perspective, total deposits of non-bank customers remained largely unchanged.

MERCHANT BANKS

Total assets/liabilities of merchant banks posted a sharp 18 per cent decline in 2008, in contrast to the 14 per cent growth recorded in 2007. While merchant banks' domestic operations registered a 6.3 per cent expansion, their offshore component fell by 19 per cent ([Exhibit 8.24](#)).

On the domestic front, loans and advances to non-bank customers plunged by 30 per cent, following two years of positive growth. However, this was offset by a 22 per cent increase in domestic interbank loans, driven mainly by a surge in credit extended to banks in Singapore.

The slump in offshore activity reflected a pullback in lending in both the interbank and non-bank segments. Credit extended to interbank customers fell by 14 per cent, whilst loans to the non-bank sector contracted by 21 per cent.

Exhibit 8.22: Total Assets and Liabilities of Finance Companies

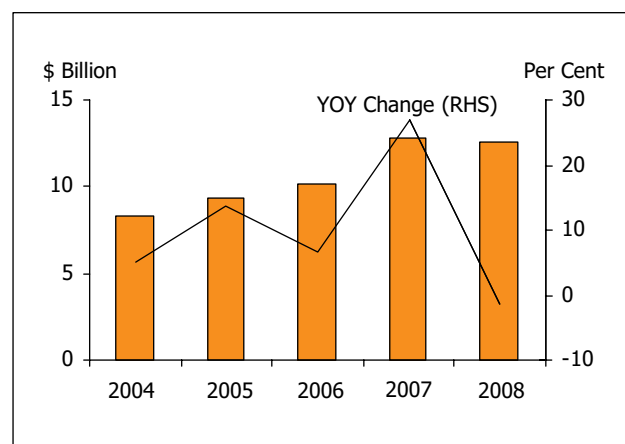


Exhibit 8.23: Growth of Loans and Advances of Finance Companies in 2008

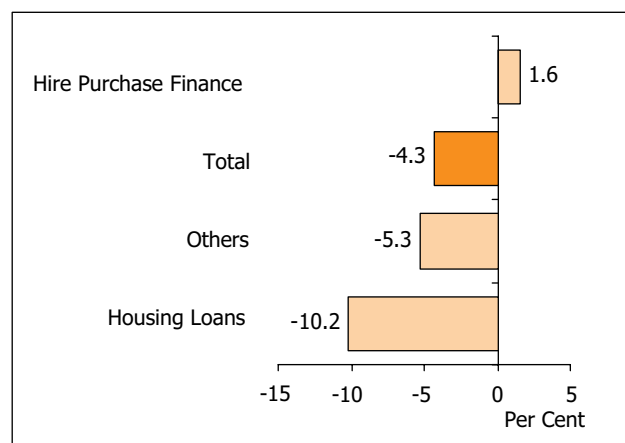
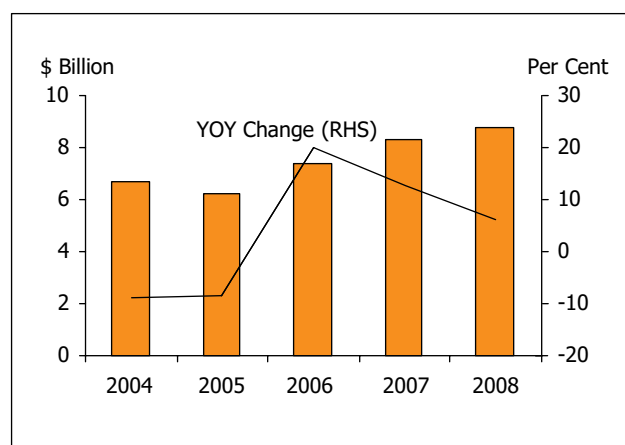


Exhibit 8.24: Total Assets and Liabilities of Merchant Banks



OFFSHORE BANKING

Total assets/liabilities of the Asian Dollar Market (ADM) expanded for the seventh consecutive year, adding 0.7 per cent to reach US\$913 billion at end-2008 (Exhibit 8.25). This was, however, a moderation compared to the 30 per cent expansion recorded in 2007. While non-bank loans remained strong, buoyed by healthy gains in both resident and non-resident lending, interbank loans contracted by 6.4 per cent, against the weakening environment in global markets.

On the liabilities front, overall deposits fell, weighed down by a significant outflow of interbank funds. Interbank deposits reversed the \$136 billion increase in 2007 to register a \$28 billion decline to \$523 billion at end-2008. Non-bank deposits also fell marginally to \$262 billion due to an outflow of non-resident funds.

INSURANCE INDUSTRY

Total new business premiums¹ of the direct life insurance industry decreased by 7.7 per cent to \$9.6 billion in 2008 (Exhibit 8.26). This was mainly due to a decline in the sales of investment-linked products in the last three quarters of 2008. Single premium business dropped by 11 per cent to \$8.4 billion, while regular premium business grew by 24 per cent to \$1.2 billion.

Premiums in the general insurance industry rose by 12 per cent to \$6.8 billion in 2008, with offshore and domestic business accounting for \$3.8 billion and \$3 billion of gross premiums² respectively. However, the industry suffered operating losses of \$43 million, after making operating profits of \$1.2 billion in 2007. These losses were largely due to unrealised investment losses booked during the year.

Exhibit 8.25: Total Assets and Liabilities of Asian Dollar Market

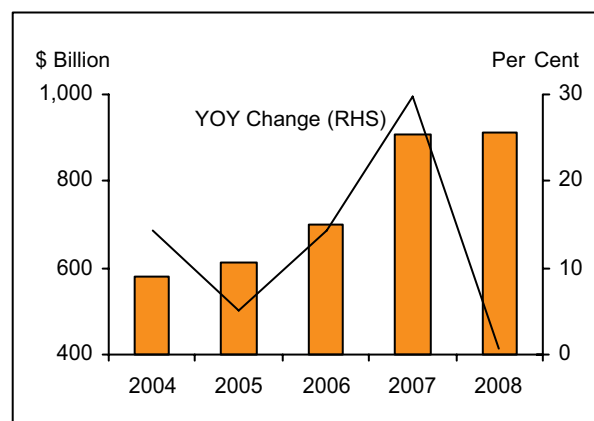
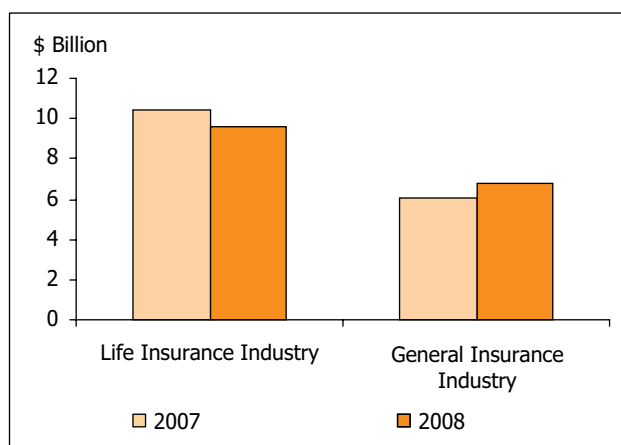


Exhibit 8.26: Premiums of Insurance Industry



¹ Includes premiums from both individual and group life insurance businesses.

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

CENTRAL PROVIDENT FUND

Members' contributions to the Central Provident Fund (CPF) increased by 12 per cent in 2008, following an increase of 10 per cent in the previous year. However, total withdrawals decreased by 5.2 per cent to \$11 billion for 2008, after a 19 per cent increase in 2007. This resulted in net contributions of \$9.3 billion in 2008, compared with \$6.6 billion in the previous year.

Withdrawals for housing purposes decreased slightly by 1.7 per cent, from \$5.9 billion in 2007 to \$5.8 billion in 2008. Withdrawals for investment purposes also decreased by 64 per cent to \$0.5 billion in 2008, compared to \$1.4 billion the year before. This was in part due to a new CPF restriction on investment, which stipulated that from 1 April 2008, members were no longer allowed to invest the first \$20,000 in their Ordinary Account and Special Account. This restriction was put in place because of the additional 1 per cent interest given on the first \$60,000 of members' CPF balances.

Outstanding CPF balances due to members grew by 10 per cent, from \$137 billion in 2007 to \$151 billion in 2008.

STOCK MARKET

The domestic stock market began the year on a sombre note, falling rapidly below the 3,000 mark as early as late January, weighed down by a multitude of factors, such as the global financial crisis, the slowdown in the US economy, and negative corporate earnings reports from global financial institutions ([Exhibit 8.27](#)). The US Federal Reserve's rescue of Bear Stearns in mid-March, however, triggered a market rally which persisted through mid-May.

Activity in the domestic stock market, however, took a turn for the worse in late May, as the rise in oil prices triggered fears that inflationary pressures in the region would choke growth and squeeze profit margins. Investors became more risk averse as fears about the global credit turmoil and related bank losses resurfaced, with many retreating from the equity market in search of safer investment avenues. As a result, the Straits Times Index (STI) had fallen by 15 per cent at the end of the first half of 2008.

Exhibit 8.27: Straits Times Index



Global financial markets were thrown into upheaval in the third quarter, as a fresh wave of negative financial developments on Wall Street caused risk aversion to soar to record highs. Under the stress of Lehman Brothers' collapse, the nationalisation of the American International Group (AIG), and Merrill Lynch's takeover by the Bank of America, the STI fell into a sharp and sustained correction to finish the third quarter at 2,359.

Although credit markets began to stabilise towards the end of the year, concerns about global growth prospects and the possibility of further contagion effects from the sub-prime mortgage crisis continued to weigh on the stock market. As a result, the STI continued to decline, hitting a five-year low of 1,600 in October, and eventually ending 2008 at 1,762, 49 per cent lower than at the start of the year.

FOREIGN EXCHANGE MARKET

The Singapore foreign exchange market posted an average daily turnover of US\$ 289 billion in 2008, an increase of about 10 per cent compared with the previous year.

Trading in the major currencies continued to dominate the Singapore foreign exchange market, with the US Dollar, Euro and Japanese Yen forming the bulk of foreign exchange trading. Trading in US Dollar/Singapore Dollar contributed about 10 per cent of total turnover in 2008.

In 2008, the US Dollar reversed its downtrend and rose against Euro and Pound Sterling by 4.2 per cent and 26 per cent respectively, but continued to depreciate against the Japanese Yen by 19 per cent. The US Dollar and Japanese Yen were boosted by repatriation flows of US and Japanese financial investors seeking to reduce their overseas exposures amidst the global financial crisis. The Euro rallied in the first half of 2008 as the Euro-area appeared more resilient than the US, but was subsequently hurt by the sharp deterioration in the Euro-area's economic outlook. Amongst the G4 currencies, the Pound Sterling suffered the sharpest decline due to concerns over the UK economy's heavy exposure to the financial sector.