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The Financial Institutions of the
Republic of Singapore

This paper reflects the personal opinion of the author and must not be interpreted as representing the opinion of the Board of Governors

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The Financial Institutions of the Republic of Singapore

Introduction

Although Singapore is now an independent country, its elevation to this status was to some extent unplanned, and it has not been particularly fortunate from an economic point of view. For many years until 1963, Singapore had the political status of a Crown Colony and later an Independent State within the British Commonwealth. In September of 1963, the State of Singapore became part of the new nation of Malaysia consisting of the former Federation of Malaya, and the Colonies of Sarawak and British North Borneo (renamed Sabah). The Protectorate of Brunei, although invited to merge with Malaysia, has not yet done so.

Malaysia and Singapore proved to incompatible, largely because of racial differences, and they split apart in 1965. Since August 9, 1965, the Republic of Singapore has been an independent country.

General Economic Situation

Singapore consists primarily of a 217 square mile island off the tip of the Malay peninsula. The total area of the Republic is 225 square miles, or about one-sixth the size of the state of Rhode Island. In mid-1968 the population was 2.0 million, of which 74 per cent were Chinese, 15 per cent Malays, and 8 per cent Indians and Pakistanis. Per capita gross domestic product in 1965 was U.S.$529. 1/

Singapore was a small fishing village when first occupied by the East India Company in 1819, but today the country has a large cosmopolitan city and one of the busiest commercial centers in East Asia. It is strategically located on the main shipping lanes and has a commodious harbor. Its main economic activities include serving as an important entrepot, providing banking and insurance facilities, exporting important primary commodities (such as rubber) and light industrial products, and providing shipbreaking facilities. For many years an important British military installation has also been maintained on the island, but current plans call for a British withdrawal from the base by 1971.

1/ Yearbook of National Accounts Statistics: 1965, United Nations, New York, 1967, p. 727.

Singapore's major exports are crude rubber, textiles, coffee, lumber, pepper and canned pineapples. For most of these products, Singapore merely serves as a place for transshipment or processing. Major imports include the unprocessed materials that go into these exports plus consumer goods, fuels and equipment needed to sustain the local population. During 1965-67, average annual exports were U.S.$1,078 million, while average annual imports were U.S.$1,300 million. A large part of the trade deficit is financed by earnings from foreign investments and by a capital inflow.

The currency is the Singapore dollar consisting of 100 cents. Since 1949 the foreign exchange rate has been 32-2/3's U. S. cents per Singapore dollar, or S.$3.06122 per U. S. dollar, and the gold content of one Singapore dollar 1/ has been 0.290299 grams.

Singapore has operated under a currency board arrangement for many years, including the postwar period. Under this arrangement domestically issued currency must be fully backed by foreign exchange. This leaves no scope for inflationary policies, and this has been an important factor in restraining the increase in domestic prices. Between the end of 1963 and the end of 1967 the consumer price index rose only 8 per cent.

The Financial Institutions in Brief

Singapore has a fairly wide variety of financial institutions that provide both short-term and medium-term credits to businesses and consumers. Some of these institutions, however, are not fully developed, and even the commercial banks are in a state of transition as they move increasingly into medium-term and industrial credits. Although individual income levels are relatively high for Asia, the affluent group is not yet sufficiently large to sustain, for example, a high volume of medium-term consumer lending.

From the viewpoint of monetary analysis, it is helpful to distinguish between financial institutions which have the power to create new money because they accept deposits which are defined as money, these deposits expanding or contracting in consonance with their credit activities, and other financial institutions which also may have deposits, but which cannot add to or subtract from the aggregate money supply through

1/ During 1949-63, the currency unit was the Malayan dollar, and from 1963 through June 12, 1967, the Malaysian dollar.

their operations. Accordingly, the first group of financial institutions in Table 1 is classified under "Banks", and the other group under "Other Financial Institutions." The "Banks" therefore include only those institutions that maintain current accounts and are able to create additional deposits. Each group is further subdivided into "Private" or "Government", depending on the ownership of the institution. If the institution is either partly or wholly owned by the Government, it is considered to be a government financial institution.

As indicated in Table 1, Singapore has about 14 different types of financial institutions. The only institution falling under "Banks" as defined above, happens to be the commercial banks, and in line with the Government of Singapore's general _laissez faire_ approach to many economic problems, the country does not have any government "Banks." Both the Post Office Savings Bank and the new Development Bank of Singapore are considered to be non-bank financial institutions.

Those government institutions that have been included in Table 1 are either those that extend credits to individuals, or accept funds or deposits from the general public for investment, thus helping to mobilize capital resources. Some government bodies, such as the Public Utilities Board, do not appear to be "financial institutions" in the sense indicated above.

Further underlining the point that the financial system is changing and expanding is the fact that out of the 14 different types of institutions, 6 have been established since 1955. Some of these newer institutions, such as the Central Provident Fund and the Economic Development Board, have had an important impact on financial developments.

Table 1. _Singapore's Financial Institutions_

A. _Banks_:
   1. _Private_: 35 commercial banks: 10 local 1/ : 25 foreign 1/
   2. _Government_: (none)

B. _Other Financial Institutions_:
   1. _Private_:
      - Building societies (1950)
      - Consumer credit cooperatives (c. 1923)
      - Finance companies (c. 1957)
      - Pawnshops
      - Private moneylenders
      - Stock Exchange (1920's)
      - Insurance companies
   2. _Government_:
      - Board of Commissioners of Currency (1967)
      - Economic Development Board (1961)
      - Singapore Post Office Savings Bank (1902)
      - Central Provident Fund (1955)
      - Housing and Development Board (1960)
      - Development Bank of Singapore Limited (1968)

NOTE: The date enclosed in the parentheses indicates the year in which the institution began to operate.

1/ As of June 1968
c. = About.

Singapore does not yet have a well-developed money market. The money market that does exist is essentially the interbank call loan market, which is described in more detail in the section on "Commercial Banks." There is no commercial bill market, nor are there any institutional arrangements for open market trading in bills. There is some trading in treasury bills, but as these are merely offered by the Accountant-General at a set price, the market tends to be somewhat artificial. There is no interbank trading in the bills, but at times the banks sell the bills to other financial institutions or individuals through the money brokers.

The data in Table 2 provide a rough indication of the relative importance of some of the financial institutions. The large amount of investments held by the Central Provident Fund are particularly noteworthy, since at the end of 1966 they were equal to 30 per cent of the commercial bank credits outstanding on the same date and were larger than the total amount of credits for all the other non-bank financial institutions combined. All of the institutions listed have been expanding with the exception of the Post Office Savings Bank which has had a decline in deposits and hence investments, since 1955.

Table 2. Credits Outstanding of Selected Financial Institutions
(In millions of Singapore dollars)

Institution	Amount	Date or Period
1. Commercial banks	1,607	Dec. 1967
2. Malaya Borneo Building Society	124 1/	Dec. 1966
3. Consumer credit cooperatives	50 E	Dec. 1967
4. Finance companies 2/	100 E	Dec. 1967
5. Economic Development Board	38 3/	Dec. 1966
6. Singapore Post Office Savings Bank	36 4/	Dec. 1966
7. Central Provident Fund	441 5/	Dec. 1966
8. Housing and Development Board	6/	6/

E = Estimate.
1/ Includes mortgage loans to Malaysians.
2/ Bank-related companies only.
3/ Excludes S.$19 million in equity holdings.
4/ Investments based on market value.
5/ Investments, primarily Singapore official securities.
6/ Long-term mortgage loans are extended by the Board, but data are not available yet on the amounts involved.

NOTE: Data are mainly taken from the text material on the individual institutions.

Unlike Indonesia and several other Southeast Asian countries, there is not as much variation in Singapore in the level of the interest rates paid and charged by the various financial institutions. As indicated in Table 3, the loan rates of the well established and more prestigious financial institutions in late 1967 ranged from about 8 to 11 per cent per annum. Rates on deposits, with the exceptions noted in Table 3, ranged even more narrowly from about 5.0 to 6.5 per cent for three-month deposits.

Table 3. Interest Rates of Financial Institutions
(In per cent per annum as of October 1967)

Institution	Loan Rates	Deposit Rates
1. Commercial banks	8 to 15 1/	5 (fixed deposits of 3 months or more) 3 (passbook savings accounts)
2. Malaya Borneo Building Society	8.0 to 8.5 2/	5.75-6.25 1/ (fixed deposit accounts) 6.25 1/ or higher (fixed-term savings accounts)
3. Consumer credit cooperatives	5.5 to 6.0	4 to 5 (yield on shares)
4. Finance companies	13 to 20 3/	3.5 to 4.5 4/ (call deposits) 5.5 to 6.0 4/ (3 months or higher) 8 to 10 5/ (one year)
5. Pawnshops	1.5%/mo. 6/ 1.0%/mo. 7/	n.a. n.a.
6. Private moneylenders	12 8/ 18 9/	n.a. n.a.
7. Economic Development Board	7.5	n.a.
8. Singapore Post Office Savings Bank	n.a.	3.0 10/
9. Central Provident Fund	n.a.	5.25 11/
10. Housing and Development Bank	6.25 to 7.5	n.a.

NOTE: n.a. = not applicable. For further details on rates, see text material "Credit Terms" and "Sources of Funds."

1/ December 1967.
2/ July 1968.
3/ Effective rather than nominal rates.
4/ Rates paid by bank-related finance companies.
5/ Rates paid by independent finance companies.
6/ On objects valued below S.$50.
7/ On objects valued at S.$50 or more.
8/ Maximum legal limit on secured loans.
9/ Maximum legal limit for unsecured loans.
10/ On May 1, 1968, the rate was increased to 3.5 per cent.
11/ Interest earnings cannot be withdrawn annually, but only at age 55 or for other approved occasions.

It should be noted that the rates on Table 3 are to a large extent approximate, as they tend to be nominal rather than effective rates. Thus changes in rate levels may be a more realistic indicator than the actual rate level indicated.

In recent years the general level of the rates has moved up, largely in response to higher rates in the United Kingdom and in other major money and capital markets. There also have been some reports of a shortage of funds, particularly in view of the continued high rate of economic activity in Singapore, and this may have created some upward pressures on interest rates.

Office of the Accountant-General

An introduction to Singapore's financial institutions would be incomplete without some description of the role of the Accountant-General. Technically he serves as the accountant for the Government, but because Singapore has no central bank, he also has certain functions that are somewhat similar to those generally performed by a central bank.

For one thing, he holds the legal reserves of the commercial banks. These reserve funds were first deposited with the Accountant-General in May of 1967.

Second, he sells and buys government trasury bills. These bills, which are available "on tap," yield a flat 5 per cent per annum, and he stands ready to purchase them at any time. Although he is not strictly speaking a lender of last resort, he does provide a facility that helps to improve bank liquidity.

Third, his office handles the check clearing arrangements and hence serves as Singapore's clearinghouse. When checks are exchanged in the inter-bank call loan market, they are drawn on funds deposited with the Accountant-General.

Fourth, his office is in charge of handling the interchangeability currency arrangements with Malaysia and Brunei. Singapore's account for this purpose with the Bank Negara Malaysia (Central Bank of Malaysia) is in the name of the Accountant-General. Basic decisions on currency matters, however, rest with the Currency Board and the Minister of Finance.

Lastly, he serves as fiscal agent for the Government, particularly in connection with issues of securities. Certain fiscal funtions are often entrusted to a country's central bank. In short, the Accountant-General is used to fill in many of the gaps left by the absence of a central bank.

Commercial Banks

The commercial banking system in Singapore is dynamic, modern and highly developed. For many years the banks have even engaged in "third country financing" where goods financed never enter Singapore. The banking habit among the populace is also quite well developed. All of the banks are privately owned except the Bank of China, which is under the control of Communist China.

Present Structure of Indigenous and Foreign Banks

Singapore has a wide variety of banks ranging from the large indigenous and foreign banks, to the small Chinese "clan banks." Many of the major countries of the world have one or more commercial banks in Singapore.

In October of 1967 there were 35 licensed commercial banks in Singapore. This total has remained unchanged for several years. Twenty of the banks maintained branches, there being a total of 117 branches.

The foreign banks tend to predominate, accounting for 25 out of the total of 35. Although some of the 10 indigenous banks are large, others are also relatively small in terms of total assets. Some of the more prominant foreign banks include the British, Malaysian, Indian, American and Japanese banks. A list of the banks and their date of incorporation is provided in Table 4.

Table 4. Commercial Banks in Singapore

Local Singapore Banks

1. Four Seas Communications Bank, Ltd.--1906
2. Lee Wah Bank, Ltd.--1920
3. Oversea-Chinese Banking Corporation, Ltd.--1932
4. The United Overseas Bank, Ltd.--1935
5. Overseas Union Bank, Ltd.--1947
6. Chung Khiaw Bank, Ltd.--1947
7. Industrial & Commercial Bank, Ltd.--1953
8. Bank of Singapore, Ltd.--1954
9. Far Eastern Bank, Ltd.--1958
10. Asia Commercial Banking Corporation, Ltd.--1959

Foreign Banks

11. Mercantile Bank, Ltd.--1856
12. The Chartered Bank--1859
13. Hong Kong & Shanghai Banking Corporation--1877
14. Algemene Bank Nederland, N.V.--1883

Table 4. (continued)

Foreign Banks

15. First National City Bank--1902
16. Banque de l'Indochine--1905
17. Eastern Bank, Ltd.--1928
18. Kwong Lee Bank, Ltd.--1934
19. Ban Hin Lee Bank, Ltd.--1935
20. Bank of China--1936
21. Indian Overseas Bank, Ltd.--1937
22. Kwangtung Provincial Bank--1939
23. Indian Bank, Ltd.--1941
24. United Commercial Bank, Ltd.--1948
25. Bank of India, Ltd.--1951
26. Bank of East Asia, Ltd.--1952
27. Bank of Canton, Ltd.--1953
28. Bank Negara Indonesia--1955-1963; 1966
29. Bank of America--1955
30. Bank of Tokyo, Ltd.--1957
31. Bangkok Bank, Ltd.--1957
32. United Malayan Banking Corporation, Ltd.--1959
33. Malayan Banking, Ltd.--1960
34. Mitsui Bank, Ltd.--1963
35. Chase Manhattan Bank--1964

Unlike many of the Southeast Asian countries, Singapore does not have any representative offices that are maintained by overseas banks. This is probably because there are so many branches of foreign banks in Singapore and because the banks in Singapore have a very extensive network of foreign correspondents.

Since the Government of Singapore does not have any central bank to serve as its fiscal agent, it relies primarily on the Office of the Accountant-General and four prominent commercial banks which have been appointed "Bankers to the Government." These four are the Oversea-Chinese Banking Corporation, the Overseas Union Bank, The Chartered Bank, and the Hong Kong and Shanghai Banking Corporation. They are used for paying governmental employees, for handling foreign exchange transactions and for other appropriate banking transactions.

Recent Legislation and Bank Organization

During the past decade Singapore banks were regulated by the Government on the basis of the 1958 Banking Ordinance. 1/ This Ordinance was passed at the time that the Federation of Malaya was establishing a central bank and passing new commercial banking legislation. Following Singapore's split with Malaysia in August of 1965, the Bank Negara Malaysia was asked to continue supervision of the Singapore banks until Singapore could pass its own banking legislation. This was accomplished on April 19, 1967, when the Government of Singapore ordered the cessation of the Central Bank of Malaysia Ordinance of 1958, 2/ and the enforcement of an order which amended the Banking Ordinance of 1958. 3/

The new legislation established an Office of the Commissioner of Banking, gave him various powers over banks, and specified various requirements that banks must observe. These aspects will be discussed later.

The new legislation did not alter the corporate or organizational structure of the commercial banks. Most indigenous banks have a five- to seven-man Board of Directors, although one of the largest banks has a minimum of eleven directors. Although directors serve one-year terms, they can be re-elected by the shareholders without any limit. The Board in turn selects the officers of the bank who constitute the bank's Management Committee. The head of the Committee is the Managing Director who serves as the chief executive officer of the bank. His position is comparable to that of a bank president in the United States. For the foreign banks, the chief officer is the Manager, who is usually aided by several Assistant Managers.

One of the larger indigenous banks divides its operations into six departments. These are: Business; Foreign; Accounting; Audit; Personnel; Secretarial; and Public Relations. This same bank late in 1967 had 550 employees (including 135 at the head office) and 28 branches and sub-branches, with 14 of them in Singapore.

Sources of Funds and Rates on Deposits

The major sources of funds for the commercial banks are their deposits and borrowings from other banks. Other, but less important sources include retained earnings and issues of capital stock.

1/ Banking Ordinance (No. 62), 1958.
2/ The Modification of Laws (Central Bank of Malaysia Ordinance) (Cessation) Order, April 19, 1967.
3/ The Modification of Laws (Banking) Order, April 24, 1967.

During the 1950's, the demand deposits of the commercial banks tended to be larger than both fixed deposits and savings accounts combined. But since 1960 the last two together have been larger, and at the end of 1967, while demand deposits outstanding totaled S.$588 million, fixed deposits and savings accounts totaled S.$919 million and S.$302 million, respectively. (See Table 5 for the trend since 1957). Interbank borrowing has also been substantial as indicated in Table 5. At the end of 1967, such borrowing totaled S.$598 million, of which S.$297 million was from other banks in Singapore, while S.$292 million was from outside the country. Some of the borrowing from abroad occurs during those periods when the interest cost is less than in Singapore, and when the more newly established foreign banks find themselves low on funds.

The maximum interest rates payable on deposits are determined by the Bankers' Association, and these rates are uniform for all of the commercial banks. In October of 1967 the banks were paying a flat rate of 5 per cent per annum on fixed deposits with a maturity of three months or more, and 3 per cent on passbook savings accounts. No interest is paid on demand deposits.

Nature of Lending and Investing and Other Activities

The nature of commercial bank lending has been changing in recent years. Earlier, bank credit was extended mainly to finance foreign and domestic trade, and the mining and plantation activities. The bulk of these loans were short-term commercial credits. In recent years, however, there has been more industrial financing, and also more medium-term financing. In 1963, for example, about 10 per cent of commercial bank loans and advances were extended to industry, but by 1968 this had doubled to approximately 20 per cent. This development has paralleled Singapore's growing industrialization, spurred in a large extent by the activities of the Economic Development Board. The commercial banks have assisted, but have not fomented, this process. 1/

In general, there is a large demand for trade financing. Competition is keen, and activity is at a high level. The foreign banks provide a large proportion of the international trade financing, the older British banks, for example, financing rubber and tin production and exports. Import financing is often extended by the Singapore branch of a foreign bank which has its head office in the country from which the commodity is imported. The indigenous banks provide a substantial proportion of the credit extended to local enterprises, and they also tend to be net lenders to the foreign banks in the interbank call loan market.

1/ One of the local banks has established a wholly-owned subsidiary to provide long-term credits. This is the Overseas Union Trust Limited.

Table 5. Singapore: Assets of the Commercial Banks
(In millions of Singapore dollars)

End of Year	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
ASSETS											
Cash	33.3	39.1	37.2	45.6	49.3	48.5	49.4	30.1	30.2	29.9	45.1
Balance Due from Banks											
1. Singapore	206.4	326.4	336.4	167.0	138.5	187.4	179.1	179.1	183.7	226.3	152.5
2. Malaysia				40.8	43.8	50.5	44.3	84.5	123.5	133.0	83.3
3. Abroad	211.5	308.7	334.8	232.5	197.5	215.9	173.6	149.6	123.2	142.4	151.9
4. Total	417.9	635.1	671.2	440.3	379.8	453.8	397.0	413.2	430.4	501.7	387.7
Balances with Accountant-General	*	*	*	*	*	*	*	*	*	*	95.6 [1/]
Investment in Securities											
1. Singapore	73.5	75.0	79.8	65.1	73.8	89.2	98.5	110.0	112.2	140.5	394.5
2. Malaysia				9.8	10.3	25.1	22.8	106.0	227.8	197.1	8.8
3. Abroad	56.0	78.0	111.4	136.6	115.5	113.3	108.2	100.0	91.5	91.9	85.6
4. Total	129.5	153.0	191.2	211.5	199.6	227.6	229.5	316.0	431.5	429.5	488.9
Bills Discounted											
1. External	*	*	*	64.5	64.7	65.7	83.8	80.2	86.2	108.9	120.3
2. Internal	*	*	*	19.6	15.9	21.3	17.8	15.0	26.9	30.2	48.4
Bills Receivable	*	*	*	100.6	130.8	100.8	113.4	116.3	138.0	170.0	163.2
Other Loans & Advances	*	*	*	589.3	655.7	779.5	839.4	914.5	1,033.5	1,152.5	1,275.1
Total Loans & Advances	511.6	463.7	541.7	774.0	867.1	967.1	1,054.4	1,126.0	1,284.6	1,461.6	1,607.0
All Other Assets	148.0	199.4	250.1	126.8	181.3	130.5	159.7	196.5	205.0	221.0	159.2
TOTAL ASSETS	1,240.3	1,490.3	1,691.5	1,598.3	1,677.1	1,827.7	1,890.0	2,081.8	2,381.7	2,643.7	2,783.5

Table 5. (Continued) Singapore: Liabilities of the Commercial Banks
(In millions of Singapore Dollars)

End of Year	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
LIABILITIES											
Deposits other than Banks: Total	645.2	732.6	815.7	848.6	892.8	1,019.9	1,092.0	1,137.2	1,222.0	1,412.1	1,828.2
1. Demand Deposits	(375.9)	(397.8)	(413.3)	(386.2)	(366.5)	(417.8)	(442.8)	(423.8)	(446.8)	(520.3)	(587.7)
2. Fixed Deposits	(137.4)	(201.6)	(226.9)	(304.4)	(347.4)	(415.0)	(437.5)	(483.6)	(548.7)	(634.2)	(919.2)
3. Savings Accounts	(99.7)	(102.4)	(120.6)	(131.9)	(149.1)	(167.6)	(193.8)	(209.2)	(216.8)	(241.3)	(302.1)
4. Other	(32.1)	(30.8)	(54.8)	(26.1)	(29.8)	(19.5)	(17.9)	(20.6)	(9.7)	(16.3)	(19.2)
Balance due to Banks & Amounts Borrowed from Banks: Total	388.6	515.6	605.2	499.5	487.0	515.1	502.6	627.5	852.1	865.3	598.3
1. Singapore	(307.3)	(437.6)	(504.2)	(195.6)	(159.1)	(185.6)	(193.0)	(172.1)	(237.2)	(276.7)	(297.0)
2. Malaysia				(174.3)	(180.2)	(204.9)	(189.4)	(258.4)	(404.2)	(366.6)	(126.2)
3. Abroad	(81.3)	(78.0)	(101.0)	(129.6)	(147.7)	(124.6)	(120.2)	(197.0)	(210.7)	(222.0)	(166.1)
All Other Liabilities	206.6	242.1	270.7	250.2	297.3	292.7	295.4	317.1	307.6	366.3	366.0
TOTAL LIABILITIES	1,240.3	1,490.3	1,691.5	1,598.3	1,677.1	1,827.7	1,890.0	2,081.8	2,381.7	2,643.7	2,783.5

1/ Of which reserves were S.$60.8 million.

SOURCE: Monthly Digest of Statistics, Department of Statistics, Government of Singapore, Singapore.

The Singapore banks, unlike those in some other Southeast Asian countries, are also active in two other areas. Since Singapore is one of Asia's most important entrepot trade centers, a substantial amount of financing is also extended for entrepot activities. This generally involves importing, processing or storage, and re-exporting. In addition, the banks help finance third country trade. This involves products that do not actually enter Singapore, but are instead shipped directly from one country to another, such as rice shipments from Burma to India, the financing for the transaction being supplied by the Singapore banks.

Singapore bank investments consist mainly of government securities and the issues of government statutory bodies. At the end of 1967 investments in securities accounted for 18 per cent of total bank assets. (See Table 5). Although the general level of investments has increased fairly steadily in the postwar period, the composition of the investments has changed sharply. Holdings of overseas securities have been declining. After reaching a peak of S.$137 million at the end of 1960, the level fell to S.$86 million at the end of 1967. During 1961-65, holdings of Malaysian securities rose substantially, or from S.$10 million to S.$228 million. But following Singapore's split with Malaysia, they plummeted from S.$228 million at the end of 1965 to S.$9 million at the end of 1967. The net result was a large shift into Singapore securities, which at the end of 1967 totaled S.$395 million, or 81 per cent of total bank investments. The 10 indigenous banks at the end of 1965 held three-eighths of the total investment.

Yields on the government securities are reasonable, though still below the prime lending rate. Late in 1967 the 90-day treasury bills, which are available to the banks on tap, were yielding a flat 5.0 per cent. Yields on 5-year government loans were about 5.75 per cent, and on 15-year government loans the yields were about 6.25 per cent.

Most of the foreign banks still employ a comprador, although he is now referred to as the bank's "business advisor." The compradors in Singapore bring business to the bank, advise on the reliability of the borrower, and since they speak Chinese, they help the foreign managers to bridge the language gap.

The Interbank Call Loan Market and Clearinghouse Arrangements

The interbank call loan market in Singapore has been active since 1962. At that time the foreign banks asked the foreign exchange and share brokers if they would form an interbank call loan market in order to provide a short-term source of funds to help them settle net balances due at clearing time. The brokers agreed, and most of the call loan brokers continue to remain active in the foreign exchange and stock market.

The number of brokers involved is relatively small. Late in 1967 there were only six altogether, of which four were active. They operate independently of the banks, and they have not formally organized themselves into an association. Most transactions are carried out by means of the telephone, but the brokers are in the heart of the business area within a quarter mile of each other.

In a typical transaction the lending bank delivers its check for the amount borrowed to the Office of the Accountant-General. The check is drawn in favor of the borrowing bank for its clearing account. If the debt is settled the next day, the reverse process takes place the following morning. There are two clearings daily, and the banks have until 4:00 p.m. to settle.

The brokers themselves never take a position in the market, and they are not regulated by any government ordinance. Their main function is to bring together the borrower and lender, and to charge the borrower a straight commission. Late in 1967 this was equal to 1/32 of the amount of interest paid by the borrower.

As indicated earlier, the local banks tend to be the main lenders and the non-British foreign banks the main borrowers. The British banks vary, and are both borrowers and lenders. The foreign banks find it helpful not to have to convert any foreign assets to help settle their clearing debts because of exchange rate uncertainties. The larger indigenous banks will lend funds overnight, but not for more than seven days as this increases the official reserves of the borrower and this is "too much help" to the competition.

Loans are basically made on a call, two-, three-, or seven-day basis. 1/ Loans for eight days or more are considered term loans, as they then become official reserves for the borrowing bank. Call loans are sometimes extended to stockbrokers, but not to other non-bank institutions.

In October of 1967 the rate for overnight money was 3.0 per cent per annum. Earlier in the year it had fluctuated between 2.5 and 4.5 per cent. The rate for seven-day money was 4.5 to 5.5 per cent, and for term money it was 6.25 to 6.5 per cent. The largest market appears to be in the overnight money. But brokerage is paid when the loan is settled, and some term loans remain outstanding for two to three years.

1/ Commonwealth Banking Systems, ed. by W. F. Crick, Clarendon Press, Oxford, 1965, p. 155.

The call loan rates are published, usually each week, in the Straits Times, a local newspaper. But except for this, the rates are not published on a regular basis, and very little information is available on the volume of activity. As indicated in Table 5, the amount of interbank debt in Singapore at the end of 1967 was S.$297 million. Daily volume is unofficially estimated to range from S.$15 million to S.$50 million, not including S.$20 to S.$30 million daily in term money. Although the brokers handle much of this, an estimated 40 per cent is also negotiated directly between individual banks.[1]

With regard to the check clearings themselves, these were originally handled by the commercial banks. After the bankworkers' strike of 1961, it was decided that a clearing center on government premises would be established.[2] Between 1963 and 1965, when the Bank Negara Malaysia had a branch in Singapore, its facilities were used for check clearing, but since the spring of 1967 the Office of the Accountant-General has been used as the clearinghouse.

Requirements of Borrowers and Credit Terms

Banks vary as to the requirements that borrowers must meet to obtain credit. The smaller, less well-established banks tend not to be as strict in their requirements as the more prestigious banks. One of the largest indigenous banks requires its borrowers to have an account with the bank, and to provide collateral in most cases. However, for overdrafts, one-quarter of the amount can be unsecured.

The prime rate (i.e. the lowest rate for the best customer) is fixed by the Bankers Association. In October of 1967 the rate was 7.5 per cent, but after the sterling devaluation in November of 1967 the rate was increased to 8.0 per cent.[3] Earlier in 1965 the prime rate had been 7.0 per cent.

At the end of 1967 the common rate for most bank credits was 8.5 to 9.5 per cent. Some of the small banks charge higher rates ranging up to 15 per cent. Although financial developments in the United Kingdom still have some impact on Singapore interest rates, their influence is substantially

1/ Ibid, p. 156.
2/ Far Eastern Economic Review, Hong Kong, April 12, 1962, p. 89.
3/ Far Eastern Economic Review, Hong Kong, April 13, 1968, p. 108.

less than in the 1940's or early 1950's. Maturities range from 90 days for trade bills to 3 to 5 years for medium-term industrial credits. Some credits extended by bank subsidiaries for industrial projects range up to 10 years and carry interest rates of 7.5 to 10 per cent. Installment credits for housing extended by the same subsidiaries are often for 10 years and carry rates ranging up to 11 per cent. Very few credits are extended with a maturity over 10 years.

Trends in Volume of Credit

Total loans and advances of the banks have been increasing generally since 1957. (See Table 5). From a level of S.$512 million at the end of 1957, they rose to S.$1,607 million at the end of 1967. In recent years the rate of increase has been about 11 per cent annually. As indicated earlier, investments in securities have also increased, although there have been some substantial changes in the composition of the investments.

The Office of the Commissioner of Banking and Government Regulation

The commercial banks in Singapore are subject to the Banking Ordinance of 1958 as modified by various legislation, particularly the Modification of Laws (Banking) Order which became operative on April 24, 1967. This law establishes legal reserve requirements for the banks and the Office of the Commissioner of Banking.

With the closing down of the Singapore branch of the Bank Negara Malaysia, the Singapore Government decided to transfer the main functions performed by the Bank Negara to the Office of the Commissioner of Banking, and the Office of the Accountant-General. The former licenses and inspects the banks, while the latter holds their reserves and handles the clearing arrangements.

The Commissioner of Banking is appointed by the Minister of Finance and his office first began to operate on April 24, 1967. In October of 1967 the staff consisted of one assistant and six clerks. Eventually the office hopes to have an inspection team for examining the banks. The Commissioner is not required to examine such other financial institutions as the Post Office Savings Bank, cooperative societies, or pawnbrokers.

Commercial banks have to meet certain, financial statutory requirements. These relate to capital, the reserve fund, statutory reserves, and loan limitations. Banks with their head office in Singapore must have a minimum paid-up capital of S.$2.0 million, while other banks must hold locally at least S.$2.0 million in approved assets or their head office must have a paid-up capital equivalent to at least S.$5.0 million.

The banks are also required to build up a reserve fund. At least 50 per cent of the annual profits must be transferred to the reserve fund if the fund is less than 50 per cent of the paid-up capital. A sum equal to 25 per cent of the net profits must be transferred to the reserve fund if the fund is from 50 to 99.9 per cent of the paid-up capital.

The banks are not subject to any specific quantitative restraints on the amount of credit that they can extend to any one individual or company. However, a bank cannot extend credit at any one time in excess of six months' salary to any of its officers or employees. 1/

The Commissioner of Banking also imposed certain legal reserve requirements on the banks in two steps. After the Commissioner began operating in April of 1967, the banks were given three months to meet the specified statutory reserve requirement and the minimum liquidity ratio requirement. The minimum statutory reserve requirement was set at 3.5 per cent consisting of a cash reserve to be held by each bank with the Accountant-General against its sight, savings account and time liabilities in Singapore. For the liquidity ratio requirement, banks are required to hold at least 20 per cent in approved liquid assets in relation to the total of their sight, savings account and time liabilities. The liquid assets are to consist of: (1) currency; (2) balances with the Accountant-General not including the statutory reserve; (3) net balances with Singapore banks; (4) net money at call in Singapore; (5) government treasury bills maturing within three months; (6) three-month or less bills discounted or receivable; (7) Singapore government securities; and (8) purchased checks payable in Singapore drawn on other banks.

The second step consisted of the imposition of a minimum "actual" liquid assets ratio. On October 30, 1967, the banks were required to hold "actual" liquid assets equivalent to at least 10 per cent of their deposit liabilities. The "actual" liquid assets are to consist of the first five types of assets listed above. These assets can also be counted toward the minimum liquidity ratio requirements. The main purpose of this change was to further increase bank liquidity and thus improve the financial soundness of the banks. Banks failing to meet the liquidity ratios are not permitted to advance any money without the approval of the Commissioner.

The Commissioner is also empowered to make recommendations to the banks on their credit policies and the rates of interest payable or charged by the banks. 2/ Under current Singapore statutes, banks are not supposed to charge more than 12 per cent per annum interest.

1/ Section 10 (1) (c) the Banking Ordinance, 1958.
2/ Section 22B, the Banking Ordinance, 1958.

The Commissioner also has the power to examine the banks and to require the submission of monthly, semi-annual, and annual reports. The banks are also required to have an annual external audit performed by an auditor approved by the Government. Copies of the last audited balance sheet are to be exhibited in a "conspicuous position" in each bank, and the balance sheet must be published in at least one local daily English newspaper.

The current policy appears to be to not license any more foreign banks if they will be conducting only general banking operations, but new foreign banks could be licensed if their major activity were to extend industrial finance.

The Bankers' Association and Publications

Most of the commercial banks in Singapore are members of the Association of Banks in Malaysia. Despite the separation of Singapore and Malaysia, the term "Malaysia" has not been changed. Many of the Singapore banks have branches in Malaysia, and vice-versa.

As indicated earlier, the Association is an important group. It suggests minimum interest rates for credits, maximum rates payable on deposits, and appropriate charges or commissions for different services including foreign exchange transactions.

All indigenous banks publish annual reports. The foreign banks generally provide only the report of their home office, although they presumably publish and display their balance sheet as required by law. Very few if any banks publish quarterly or semi-annual reports.

Other sources of data on commercial banking include the Monthly Digest of Statistics and a monthly mimeographed sheet "Banking Statistics," both prepared by the Chief Statistician of the government's Department of Statistics. The latter source, unlike the former, has data on checks sent for local clearing, and debits to current deposit accounts. The Office of the Commissioner of Banking is also planning to publish annual reports beginning in 1969.

Conclusions

Singapore, along with Hong Kong, has one of the most active and widely developed banking systems in Southeast Asia. The facilities for short-term business credits are excellent, and those for medium-term credits have been increasing in recent years. There are still some understandable gaps, however, in the provision of consumer credit. Longer-term housing credits are becoming increasingly available from special institutions, and finance companies are helping to fill the gap for shorter-term consumer credits. If past trends continue, there should be an increase in the future in both long-term business credits and also consumer credits, with the commercial banks playing an important role in both areas.

The Singapore banking system has been relatively free from bank runs or confidence crises. There was a brief run in 1961 on one of the new suburban branches of a Chinese bank, but in a remarkable display of strength, the bank kept paying out funds until confidence was restored.1/ The 1966 run on the Malayan Banking Limited involved mainly Kuala Lumpur developments, and that bank too has also been able to weather the storm.

With the passage of new banking legislation and the implementation of the 10 per cent "actual" liquid assets ratio, the banking system has been placed on an even sounder basis than existed earlier. Although Singapore has no lender of last resort, the Office of the Accountant-General performs a similar function by standing ready to buy government securities.

For many years the Singapore banks have benefited from the ease with which capital could be moved between Singapore and London, and to a slightly lesser extent within the Sterling area, of which Singapore is a member.2/ Thus this ready access to a highly developed capital market has provided Singapore with both an important supply of funds and an attractive outlet for funds, depending upon Singapore's needs.

Opinion is divided as to whether Singapore is "over-banked." Since there appears to have been a kind of informal, _de facto_ moratorium on the establishment of any new banks since 1964, this problem should lessen in importance as the country grows. At this time, however, most observers would probably agree that Singapore certainly has enough banks.

1/ _Far Eastern Economic Review_, Hong Kong, April 12, 1962, p. 90.
2/ _See Commonwealth Banking Systems_, _op_. _cit_., p. 146.

Building Societies

The building societies in Singapore are similar to the savings and loan associations in the United States. At the end of 1967 Singapore only had two building societies, one of them having been largely financed by governmental bodies. Both societies operate in Singapore and Malaysia, the operations in the latter country being much larger because of the greater availability of land for residential homes.

Origin, Purpose and Organization

One of the first building societies established in Singapore was largely sponsored by the Malaysian and British Governments. In 1950 the Malaya Borneo Building Society Limited was set up with 40 per cent of the capital being provided by the Commonwealth Development Corporation, a British governmental entity (Singapore at the time being a Crown Colony), and 40 per cent by the predecessor of the present-day Malaysian Government. The remaining 20 per cent of the share capital was provided by the general public. The other building society in Singapore was established by a commercial bank. This is the Building Society of Malaya which is a subsidiary of the Oversea-Chinese Banking Corporation.

The basic purpose of the organizations, aside from profit aspects, is to promote home ownership by providing long-term loans at reasonable rates of interest. Unlike the Housing and Development Board, most of the credits finance residential houses rather than apartments.

The two building societies operate in both Singapore and Malaysia, the bulk of the lending actually being in West Malaysia. Although the Malaya Borneo Building Society is incorporated in Singapore where it has a registered office, its chief administrative office is in Kuala Lumpur. It also has three other offices in Penang, Ipoh, and Malacca.

The Malaya Borneo Building Society operates on a regular corporate basis with a Board of Directors and a General Manager. The Society, which employs about 120 persons altogether, operates through four units: Loan Administration; Accounting; Secretariat; and Internal Audit. The branch offices have a manager and several surveyors.

Sources of Funds and Rates on Deposits

The main sources of funds for the Malaya Borneo Building Society have been loans from the Malaysian Employees Provident Fund, paid-up share capital, and to a much lesser extent, deposits.[1/] At the end of 1966 issued

1/ Annual Report and Statement of Accounts: 1967, Bank Negara Malaysia, Kuala Lumpur, 1968, p. 60.

and fully paid-up share capital was about S.$40 million. Loans from the Provident Fund were about S.$42 million, while deposits, which were first introduced in 1965, were only S.$3 million.

The M.B.B.S. offers two types of deposits: fixed deposit accounts; and fixed term savings accounts. In the case of the first type, a minimum sum of S.$500 must be deposited for at least 6 months. For the second type, a minimum of S.$30 must be deposited each month over a negotiated period of time.

Following a general increase in interest rates in December of 1967, the rates paid on fixed deposit accounts were increased and ranged from 5.75 to 6.25 per cent per annum. The previous rates for the same maturities had ranged from 5.0 to 6.0 per cent. The rate paid on fixed term savings accounts has generally been lower and prior to December of 1967 was 4 per cent with a 1 percentage point bonus if deposits were made regularly. Interest rates higher than 6.25 per cent are possible as the rate payable for deposits withdrawable at 5 years' notice, since December of 1967, is subject to negotiation.

Lending Activities and Credit Terms

The main activity of the building societies is to extend mortgage loans, including construction loans, for the purchase of residential homes to individuals rather than developers. The societies prefer lower-priced homes—such as those in the S.$8,000 to S.$20,000 range—as their funds are limited and persons with higher incomes are in less need of this type of financing. At the end of 1966, 93 per cent of the mortgage credits extended by the M.B.B.S. financed homes priced at S.$15,000 or less.

The bulk of the lending operations of the building societies takes place in Malaysia. At the end of 1967 the M.B.B.S. had about S.$129 million in mortgage assets, but only S.$22 million represented assets in Singapore. For the same date, the M.B.B.S. had 18,301 borrowers, but only 3,113 of them were in the Republic of Singapore. 1/

On July 1, 1968, the M.B.B.S. raised its lending rates from 7.5 per cent to 8 per cent for houses costing between S.$8001 and S.$20,000. For houses exceeding S.$20,000, the rate was raised from 7.5 per cent to 8.5 per cent. This change reflected an uptrend in deposit rates and in the minimum rate for commercial bank advances in Singapore and Malaysia. The maximum loan value in relation to the price of the property varies from 90 to 66-2/3 per cent on properties S.$8,000 and below, and S.$20,000 and above, respectively. The maximum maturities range from 20 years for properties priced at S.$8,000 or less to 15 years for properties above S.$12,000. Some loans are made with only a 5-year maturity.

1/ Ibid., pp. 60-61.

Besides its regular lending activities, the M.B.B.S. also acts as agent for various statutory bodies and large commercial companies in administering their Staff Housing Loan Schemes. The Society is also able to accept funds from trustee bodies in Malaysia as an "approved company" under the Trustee Investment Act of 1965.

Government Supervision and Publications

The building societies are not subject to any special legislation on building societies, but must observe the provisions of the companies act. Although the Malaysian Companies Act of 1965, which came into force on April 15, 1966, requires companies inviting deposits to issue a prospectus, the building societies were exempt from this requirement as they were declared by the Minister of Finance to be "prescribed corporations." Certain other legislation,1/ primarily designed to protect home buyers, must be observed by the building societies.

The building societies are not subject to any statutory requirements as to reserve funds, but as a matter of policy they do allocate a certain proportion of their net profits to a "General Reserve" fund. Statutory external audits are required by the Companies Act.

The building societies publish annual reports, and also informational brochures on deposit accounts and mortgage loans. Some material is also published in the Annual Report of the Bank Negara Malaysia.2/

Comment

The building societies in Singapore have constituted a first sound step toward the long-term financing of home ownership in the private sector. Although one of the first societies was heavily financed by governmental bodies, it is encouraging that a private commercial bank has also established a building society. The pioneer Malaya Borneo Building Society Limited has shown that this type of business can be conducted on a sound and profitable basis. The operations of these building societies might well serve as a possible prototype for similar operations in other Southeast Asian countries.

The societies, however, have had some problems. One of these is the excess demand for funds in relation to the supply.3/ The basic solution for this problem is of course to achieve a better relationship between the price paid for funds and the rates charged for funds.

1/ These include Singapore's Housing Developers (Control and Licensing) Ordinance of 1965, and Malaysia's Housing Developers (Control and Licensing) Act of 1966.

2/ See, for example, Annual Report and Statement of Accounts: 1967, Bank Negara Malaysia, Kuala Lumpur, 1968, pp. 60-61.

3/ 17th Annual Report and Accounts: 1966, Malay Borneo Building Society, Limited, Kuala Lumpur, 1967, p. 14.

Since the geographical area of Singapore is relatively small, the operations of the building societies in the Republic are likely to continue to be much less important than in Malaysia. Most new housing is likely to take the form of apartment developments. However, for those able to afford individual residential housing, it is a substantial step forward to have a financial institution that can provide long-term consumer housing credits at reasonable rates of interest.

Consumer Credit Cooperatives

The consumer credit cooperatives in Singapore, which first began in the government sector in the 1920's during the postwar slump, have since then extended their operations to the private sector. Although the growth of the cooperatives was steady but slow prior to the Second World War, their growth in the postwar period has been fairly rapid. They are now fairly widespread and the country has over 100 credit cooperatives. Singapore's housing cooperatives appear to be among the most advanced in Southeast Asia.

Types of Consumer Credit Cooperatives

Singapore has two main types of consumer credit cooperatives. One is a general type cooperative, extending loans for any appropriate purpose, while the other is a housing cooperative to finance the purchase of land and homes for its members.

The general cooperatives, which are very similar to the credit unions in the United States, are usually known as "thrift and loan societies." These began about 1923 with the establishment of the Singapore Government Servants' Co-operative Thrift and Loan Society, Limited. Other government departments, such as customs, police, the printing office, and public works subsequently established their own thrift and loan societies.

The private sector also has a number of credit societies which operate much as the government thrift and loan societies. The members of the private societies tend to be industrial workers employed by relatively large corporations.

In the same manner, both the government and private sectors also have cooperative housing societies. For the government sector, the most prominent is the Singapore Government Officers' Co-operative Housing Society Limited. Despite its name, membership is not limited to officers, but is extended to any government employee. For private employees, there is the Singapore Cooperative Housing Society Limited.

In late 1967 there were altogether about 104 cooperative societies in Singapore, including some consumer cooperatives. Most of these were thrift and loan societies. At the end of 1966 the Government Servants' Thrift and Loan Society had 5,295 members 1/ and the Government Officers' Co-operative Housing Society had 4,082 members. 2/ The latter, which is a newer organization, had only 557 members at the end of 1955. Most of the following will deal chiefly with the thrift and loan societies, and in particular with the Government Servants' Thrift and Loan Societies.

Nature of Operations and Management

The cooperatives are designed to achieve a variety of objectives. These include promoting thrift and self-help, preventing permanent indebtedness by providing credits on reasonable terms, providing security bonds for members, and generally assisting members to improve their economic position. 3/

One of the reasons for the steady growth of the government thrift and loan societies may be their arrangements for members' subscriptions which provide the bulk of the funds for the society. It is mandatory for members to subscribe an amount of at least S.$5 4/ each month and this is automatically deducted from the employee's salary by the Government. In the absence of both of these aspects, the growth of the societies might have been slower.

The Government Thrift and Loan Society is run by a Committee of Management consisting of 9 to 11 members elected annually by the shareholders. The Committee elects a chairman and vice-chairman among themselves and appoints a secretary and/or treasurer or assistant treasurer. The Committee controls the affairs of the Society and also approves or rejects loan applications. The Committee and the Society's officers serve only part-time on a voluntary basis. The Society also has some full-time employees, all such employees, however, are paid by the Society.

Sources of Funds and Deposit Rates

The main source of funds for the thrift and loan societies is the membership subscriptions. Other sources include specific deposits, entrance fees, temporary loans, and retained earnings. At the end of

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1/ 38th. Annual Report, The Singapore Government Servants' Co-operative Thrift and Loan Society, Limited, Singapore, 1967, p. 3.
2/ 18th. Annual Report, The Singapore Government Officers' Co-operative Housing Society, Limited, Singapore, 1967, p. 3.
3/ Section 3, By-Laws, Singapore Government Servants' Co-operative Thrift and Loan Society, Limited, Singapore, 1967, p. 3.
4/ Prior to June 1967 the minimum monthly subscription was S.$2.

1966, for example, the subscribed capital of S.$3.0 million of the Government Servants' Thrift and Loan Society accounted for 78 per cent of the Society's total assets.

As indicated earlier, the member subscriptions for the Government Thrift and Loan Societies are obtained through a monthly payroll deduction arrangement. A check for the total of these deducted sums is sent to the society each month, and the amount of the subscribed shares is recorded in the member's passbook once a year before the month of July. A government civil servant is prohibited from subscribing to an annual amount equivalent to more than 25 per cent of his salary.

The specific deposits, which accounted for only 11 per cent of the Society's assets at the end of 1966, are monthly deposits placed with the Society for a specific purpose such as education, marriage, illness or maternity expenses, or housing. These deposits are subject to somewhat different conditions than the subscribed shares, although the rate of return is the same.

The societies sometimes obtain short-term overdrafts from banks. In the case of the Government Servants' Thrift and Loan Society, both the Society and the Registrar of Cooperatives must agree on a maximum limit of indebtedness, and during 1968 this was fixed at S.$150,000. Additional sources of funds for the housing societies are the surplus funds of other cooperative societies, and also government loans. 1/

For many years the dividend yield on shares in the Government Servants' Thrift and Loan Society has been 4 per cent per annum. A higher rate might have been paid in recent years except for an old ordinance passed in the 1920's which specifies that if a rate higher than 4 per cent is paid, then the Society must allocate 25 per cent of its net profits to the statutory reserve fund instead of 10 per cent. If 25 per cent had to be allocated, the Society could not even pay a dividend as high as 4 per cent. Efforts are being made by the societies to change this regulation and in the meantime extra funds are channeled into such things as scholarships, funeral grants and a common good fund.

During 1966 a higher rate of 5 per cent was paid by the Singapore Government Officers' Co-operative Housing Society, but 25 per cent of their net profit was also credited to the statutory reserve fund. In addition, there was also a 3 per cent rebate on interest on loans to members as of the end of 1966.

1/ The Singapore Government Officers' Co-operative Society, for example, had a S.$2.9 million loan from the Government at the end of 1966.

Lending Activities and Credit Terms

Loans are extended by the credit cooperatives for any useful or necessary purpose. These often include paying for illnesses, purchasing an automobile, home repairs, home furnishings, and educational costs. The thrift and loan societies also provide credit for purchasing land, a home, or land and a home. However, the maximum amount of such real estate credit available from the Singapore Government Servants' Thrift and Loan Society is S.$18,000, whereas from the Singapore Government Officers' Co-operative Housing Society it is S.$25,000.

Specific data are not available on the total amount of credit outstanding of the cooperatives, but at the end of 1967 it was estimated to be in the neighborhood of S.$50 million. During 1966 the Singapore Government Servants' Thrift and Loan Society extended S.$7.0 million in credits, the average loan value being S.$884.

The main requirements for borrowers from the credit cooperatives are that they be a member in good standing, file a loan application, indicate that the funds will be used for an approved purpose, and be at least 21 years old. The borrower is also generally required to have two other persons stand surety for the loan. In the case of the Government Officers' Housing Society, the borrower must have been a member of the Society for at least one year. Although the by-laws often provide for physical collateral, this is seldom required in actual practice.

Loan repayments to thrift and loan societies are supposed to be made within 12 months, but in exceptional cases the repayment period can be stretched to 24 months. The average repayment period tends to run around 20 months. For housing loans, the maximum repayment period is 20 years.

For thrift and loan societies, the interest rate on loans in 1967 was 6 per cent per annum on the amount of the loan granted, payable in equal monthly installments in the same period as the principal. The effective or real interest rate, therefore, tended to be about 12 per cent. The rate charged by the Government Housing Society in 1967 was 5-1/2 per cent on the balance due at the first of the year. Prior to 1958 the rate was 4-1/2 per cent. The by-laws specify that the rate shall not be more than 1 percentage point above the rate at which the Society borrowers.

The societies tend to limit the amount of credit extended to any one member. In the case of the Government Servants' Thrift and Loan Society, the maximum borrowing limit is half a year's salary or S.$2,004, whichever is less.

Government Supervision and Publications

The consumer credit cooperatives are regulated by the Registrar of Co-operative Societies under the Colony Co-operative Societies Ordinance (Cap. 155). The societies are required to submit monthly reports to the Registrar, and to have certain society actions--such as an increase in the indebtedness limit--approved by the Registrar.

Auditors from the Registrar's office inspect the societies' books periodically. Each society is also required to have both an internal and an external audit conducted annually. No dividends can be paid by a society until the balance sheet has been audited and certified by the auditor appointed by the Registrar.

As indicated earlier, the societies are required to allocate 10 per cent or 25 per cent of their net profits to a statutory reserve fund. The societies are exempt from both the income tax and the stamp tax, although members are required to pay income tax on their dividends. Most societies also set aside a certain amount each year as a bad debts reserve. Approval is required from both the membership and the Registrar before any debts are written off.

The main publications relating to the societies are the annual reports of the societies, their published by-laws, and the Annual Report of the Registrar of Cooperative Societies. The Registrar's office is under the supervision of the Ministry of National Development.

Some Conclusions

The credit cooperatives in Singapore have made a useful contribution in the field of consumer credit. They appear to have a sound financial base, are fairly widespread, and have been growing at a substantial rate.

It may be, however, that some reform of the existing arrangements might be desirable, particularly since the demand for credits in recent years has been in excess of the supply of funds. Consideration might be given by the Government to changing the regulation of the 1920's which requires a rather high 25 per cent allocation of net profits to the Statutory Reserve Fund if the rate of dividends paid on subscribed shares exceeds 4 per cent. With a higher dividend rate, the supply of funds should expand, which should be helpful in meeting some of the strong loan demand.

One factor which has probably been important in contributing to the substantial and sustained growth of the thrift and loan societies is the minimum, mandatory purchase of capital shares each month. This provides the society with a fairly steady and assured source of funds. It is interesting to note that one of the most successful consumer credit cooperatives in Viet-Nam has a similar feature. There may be a lesson in this for countries interested in developing urban consumer credit cooperatives.

Finance Companies

The Singapore finance companies, which first became prominent in the 1960's, basically operate a hire-purchase scheme to provide 18-month consumer credits. The bulk of the financing is for automobiles, much of the remainder being for electrical appliances and products. The growth of the companies has been rapid, and to protect the general public a Finance Companies Act was implemented early in 1968.

Bank-related vs. Independent Finance Companies

The establishment of finance companies in Singapore is a relatively new development, these companies providing certain facilities which previously had not been provided by the commercial banks. The first finance companies were established about 1957 by Lombard Finance of London. They were not too successful, however, and they discontinued their operations about 1960-61.

Subsequently one of the commercial banks, Malayan Banking Limited, became interested in this type of operation, and established a company which eventually became Pan Malayan Finance Limited. Pan Malayan obtained a listing on the Singapore-Malaysian Stock Exchange and has generally prospered, paying periodic dividends.

In recent years there has been a very substantial increase in the number of finance companies. Late in 1967 there were approximately 25 such companies operating in Singapore. These companies can be divided into two general categories, although this distinction has no legal basis. One group is the bank-related finance companies which are either owned wholly or partly by a commercial bank. The other group might be called the independent companies. These are owned by any individuals or firms other than commercial banks. Occasionally these two groups are referred to as subsidiary and associated finance companies, respectively, but there is no accepted common term for the two groups.

The bank-related finance companies are better organized and financed than the other group, and in general have a higher reputation. Some of the independent companies have only a single office and a very small staff. In October of 1967 there were nine bank-related companies, two of which were sponsored by foreign banks, 1/ the other seven being sponsored by local banks. 2/ Many of the companies operate in both Singapore and Malaysia.

1/ The Chartered Bank, and the Hongkong and Shanghai Banking Corporation.
2/ Four Seas Communication Bank Ltd., Oversea-Chinese Banking Corp., Overseas Union Bank Ltd., Bank of Singapore, Asia Commercial Banking Corp., Ltd., United Malayan Banking Corp., Ltd., and Malayan Banking Ltd.

Lending Activities and Credit Terms

Most of the credit extended by the finance companies is for the purchase of automobiles. For many of the companies, motor car financing constitutes about 70 to 80 per cent of their business. The rest of the financing is mainly for other consumer durables such as refrigerators, television sets, etc.. Both new and used cars are financed, but other financing is generally for new products. Some companies have also undertaken a leasing business.

The credit system used is basically the same as the hire-purchase arrangements prevalent in the United Kingdom. The motor company, for example, sends a potential car buyer to the finance company. After the signing of contracts, the finance company pays the automobile sales company for the car, the sales company sending the title to the car to the finance company. The finance company arranges for the car's insurance, license, etc., and the purchaser makes his payments to the finance company.

A large part of the borrowing is actually arranged through an agent system. The agents put the potential borrower in contact with the finance company, often guaranteeing the payments of the borrower, and they receive a commission for their services ranging from 0.5 to 2.0 per cent of the amount of the credit. Some agents provide up to S.$500,000 in business to the finance companies annually.

Published data are not available on the volume of credit extended by the finance companies, but it has been estimated that at the end of 1967 the amount of credit outstanding for bank-related companies was about S.$100 million. For this same group of companies, it has also been estimated that the volume of credit outstanding rose about S.$20 million in 1967. If so, this would indicate a very rapid rate of growth for the finance companies.

The interest rates charged tend to be lower for the bank-related finance companies. Late in 1967 their nominal rates were 7 to 8 per cent per annum, but the effective rates were about 13 to 14 per cent. For the independent companies the effective or real rates were about 18 to 20 per cent per year.

Repayment is generally within an 18-month period, including a few months grace period. Due to some slippage in the payments, it frequently takes 18 months for a 12-month contract to be discharged.

Sources of Funds and Rates Paid on Deposits

The main source of funds for the finance companies is their deposits. Some funds, particularly when the company is first established, are also obtained from the sponsoring groups.

There are two types of deposits. These are deposits at call and fixed deposits. Late in 1967 the rates paid by the bank-related finance companies for call deposits ranged from 3.5 to 4.5 per cent. The rates for 3-, 6-, 9- and 12-month deposits ranged from 5.5 to 6.0 per cent. Although 6.0 per cent was generally the highest rate offered by the bank-related finance companies, the independent companies reportedly offered rates as high as 8 to 10 per cent for one-year deposits.

Government Supervision and the Finance Companies Act

Until December of 1967 the finance companies were not closely regulated by the Government except that they did have to comply with the requirements of the Companies Act. However, it soon became clear that with the rapid growth in their number, and with the companies both extending credits and conducting a deposit business, that the general public would have to be protected by enacting a law specifying certain requirements for the companies that would provide some assurance of sound financial operation.

Accordingly, the Singapore Parliament on December 21, 1967, passed the Finance Companies Act which became effective on January 10, 1968.1/ Some of the basic provisions of the Act are as follows: (1) companies must have a minimum paid-up capital of S.$500,000 (US$163,400) to be licensed; (2) except for its own premises, immovable property cannot be acquired; (3) investment of more than 25 per cent of the company's capital and reserves in other undertakings is prohibited; (4) unsecured advances can only be made up to S.$1,000; (5) a reserve fund is to be built up and dividends cannot be paid until this fund is equal to paid-up capital; and (6) a commissioner appointed by the Minister of Finance is empowered to inspect the accounts of the companies. The Act also gives the authorities the power to establish a minimum liquidity ratio against deposit liabilities, to set maximum interest rates for both deposits and advances, to fix the maximum amount of advances that can be extended to an individual or group, as well as the minimum downpayment and maximum maturity, and to specify the maximum percentage of total assets that a company can hold in certain types of advances. As with any limited company, all finance companies must have an annual external audit conducted by one of the authorized accountants certified by the Accountant-General.

Although there is an Association of Finance Companies, the only company to publish an annual report is the one listed on the stock exchange, Pan Malayan Finance Limited.

1/ International Financial News Survey, International Monetary Fund, Washington, D. C., March 8, 1968, p. 73.

Some Comments

Like certain other Southeast Asian countries, Singapore has experienced a burgeoning of finance companies. This has created some problems, particularly with regard to the independent companies, and the Singapore Government has wisely enacted legislation, not only to protect the general public, but also to permit the growth of truly sound companies. In this regard, the Singapore Finance Companies Act could serve as a useful guide for other countries faced with similar problems.

In general, the finance companies are a step forward in the process of expanding the spectrum of financial institutions. In Singapore, they are for the first time providing 18-month credits for the purchase of consumer durables, a service not previously provided by the banks.

Pawnshops

Although regulated by the Government, the pawnshops in Singapore are owned and operated by the private sector. At the end of 1967, Singapore had 39 licensed pawnshops. This represented a moderate decline in the number as compared to 1958 when there was a major reform in the licensing arrangements for pawnshops.

Nature of Operators and the 1958 Reform

The pawnshops in Singapore are largely run by the Chinese, particularly the Khek clan whose ancestors came from a certain region in China. The shops are generally operated as a family business, with about half a dozen persons handling the operations. Most shops have as a minimum a manager, an assessor, a cashier and an assistant. The premises often consist of the ground floor, carefully secured, of a house.

The pawnbrokers have their own association, partly in order to hire a lawyer to handle any legal problems that might develop. The Singapore Pawnbrokers' Association, however, does not issue any publications.

Prior to 1958 the pawnshops in Singapore obtained their licenses through a tender system. The license for a particular locality was awarded to the highest bidder every three years. The fees obtained from this system, which were in the neighborhood of S.\$1.0 million, were regarded as a not insignificant source of public revenue.

This system was changed in 1958 after a study had been made in 1955-56 by a special committee.1/ The committee concluded that the tender system placed an unnecessarily heavy financial burden on the pawnshops, forcing up interest rates to an excessively high level and reducing the amount which could be advanced on an average pledge. It was therefore decided that pawnshops should be licensed like banks and insurance companies, with the fee merely adequate to cover the Government's wants. Under the new arrangements which began April 1, 1958, anyone can be licensed to conduct a pawnbroking business who meets the minimum legal requirements.

At the time of the reform in the licensing arrangements in 1958, there were 44 pawnshops in Singapore. Following the reform, some closed down and others moved to Malaya. As a result, the total number dropped to 39 and has remained unchanged for about a decade.

Credit Activities and Terms

The main pawners are generally persons with low incomes who have no personal credit and no acceptable security to offer to banks and moneylenders. Most of the pawning is undertaken to meet personal, rather than business, needs. The funds are generally used to obtain basic necessities, as well as to meet unexpected emergencies such as medical expenses. A substantial volume of pawning also occurs just before or during festive seasons.

Commonly pawned possessions include jewelry and objects containing gold or silver. Particularly common are earrings, necklaces, bracelets, watches and fountain pens. Some clothing is pawned as well as expensive curios and even sewing machines and bicycles.

No data is available on the volume of business carried out by pawnshops. But since the pawnshop fees alone returned about S.$1.0 million to the Government in 1956, the volume of operations must be fairly substantial.

As a result of the 1958 reform, the maximum rate of interest charged on a pawn was reduced to 1.5 per cent per month from 2.0 per cent per month. In 1968 the practice was to charge 1.5 per cent monthly on objects below S.$50 in value and 1.0 per cent per month on pawns valued at S.$50 or more.

Pawners are given a maximum of six months to redeem the pawn. After at least a few weeks of grace, the object is usually auctioned. If the pawner, however, pays the interest charges before the expiration of the six months, he can receive a six-month extension of the loan.

1/ See "Pawnbrokers and Pawnshops--White Paper on Government Policy," Sessional Paper No. Cmd. 62 of 1956, Legislative Assembly, Singapore, November 1956.

Sources of Funds and Deposit Operations

The main source of funds for the pawnshop operators is their own built-up capital. A conservative estimate of the average amount of capital per pawnshop in 1968 would be about S.$300,000. These funds are not derived in part from a private moneylending business on the side, as the private moneylenders are basically a different group from the pawn-brokers.

Other sources include credit from commercial banks and deposits from individuals. It is quite common in Singapore for the pawnshops to accept deposits from the public for varying periods, with a one-month period being quite common. These are basically loans to the pawnshops, for which the depositor receives both a receipt at the time of deposit and interest when the loan matures. This type of operation is particularly popular with <u>ahmahs</u> and other servants as the rate of return is generally higher than from other regular savings and investment outlets. Although the interest rate varies, many depositors were receiving about 12 per cent per annum in late 1967. The special committee appointed to enquire into the system of tenders for pawnbrokers licenses, considered whether this type of deposit business should either be regulated by statute or debarred altogether, but they decided to do neither as "...goldsmiths and other businessmen also receive similar types of deposits on a very large scale."1/

Government Regulations

The pawnshop business in Singapore is regulated in accordance with the Pawnbrokers (Amendment) Ordinance No. 12 of 1957.2/ To administer the licensing arrangements, the Ordinance establishes a Pawnbrokers Licensing Board consisting of a Chairman, the Commissioner of Police or his representative, and four other persons.3/ Except for the Commissioner of Police, all members of the Board are appointed by the appropriate Ministry. Both the Secretary and Deputy Secretary of the Pawnshop Licensing Board are employed by the Ministry of Law.

Two of the basic purposes of the Ordinance are to protect the general public from exploitation and to prevent abuses of the system, particularly with regard to stolen property. To this end, the law requires all applicants to be of age and of good character, to have premises that are structurally adapted for uses as a pawnbroker's shop, to conduct only a pawnbroking business on the premises (although fixed deposits may be accepted), and to

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1/ <u>Ibid.</u>, p. 8.
2/ Approved by the Council of Ministers on March 11, 1958. The Ordinance was also amended again in 1960.
3/ Section 7.

provide a cash deposit or its equivalent of S.$5,000 to the authorities.

In addition to the Pawnshop Licensing Board, the pawnshops are also subject to supervision by the Deputy Commissioner of Police, or the Assistant Commissioner of the Criminal Investigation Department, operating through the Pawnshops and Second Hand Dealers Branch of the C.I.D. The Ordinance permits certain officials to examine the books of the pawnshop at any time during business hours.1/

Although the Statistics Department of the Ministry of Finance has data on the pawnshop operations, these are not published. As pointed out earlier, the Singapore Pawnbrokers' Association also does not publish any statistical data.

Comment

The pawnshops in Singapore appear to constitute an efficient and effective system for meeting the demand of the lower-income groups for small consumer loans both quickly and at reasonable cost. The discontinuance of the tender system has been successful in reducing the cost of credit to the borrowers, although at some cost to the public revenues.

It is interesting to note that the special committee's report in 1956 on the pawnshops stated that deposits by individuals with various types of businesses were "...on a very large scale." This suggests that an effective monetary analysis of an area at times may have to take into account this unrecorded, but nevertheless real, monetary phenomenon.

Private Moneylenders

Singapore has over 300 registered moneylenders, all of them operating in the private sector. Unlike some Southeast Asian countries, they are supervised by the Government, although somewhat unsuccessfully with regard to the maximum legal interest rates that they can charge. Some moneylenders have also progressed to the point of establishing finance companies.

Types of Moneylenders and Their Sources of Funds

Most of the registered moneylenders in Singapore are Indians. The two prevalent groups are the Chettyars and the Sikhs, although there are some Chinese moneylenders.

1/ Section 40.

The number of registered moneylenders appears to have increased substantially in recent years. At the end of 1966 there were 270, but by October of 1967 the number had increased to 318. Some of the more successful moneylenders have also organized and established finance companies.

The two main groups have their own organization, one being the Sikh Moneylenders' Association. The Chettyars handle their moneylending and other problems through the Chettyar Chamber of Commerce.

The moneylenders tend to have two main sources of funds. One is their own capital, built up from successful operations of various types, and the other source is money borrowed from other moneylenders. Only infrequent use is made of the commercial banks. This is because they usually require specific collateral, and most of the moneylenders' loans are unsecured.

The Nature of the Borrowers and Use of Funds

Most of the borrowers from private moneylenders are people with relatively low incomes. These include day laborers, low-paid government employees, clerks, small traders, and the impoverished classes. The Chettyars tend to lend to the private traders, and occasionally to those who can provide collateral. The Sikhs on the other hand often lend on an unsecured basis to very poor people.

The borrowing is undertaken for a wide variety of purposes. It may be for some unforeseen difficulty, such as sickness, or for a frivolous purpose, such as to spend at the race track, or for financing a small business operation, such as purchasing wares for sidewalk hawking. Some funds are thus provided for business purposes, unlike pawnshops where almost all of the credits are used for consumption purposes.

Credit Terms and Estimated Volume of Activity

The interest rates that registered moneylenders can charge on loans are regulated by law. In early 1968 the maximum rates were 18 per cent for unsecured loans and 12 per cent for secured loans. As indicated earlier, more than half of the loans are extended on an unsecured basis. The law does not specify any minimum or maximum loan maturities, and as a matter of actual practice, most loans are extended without any stated period for repayment. Interest, however, is generally paid monthly.

Despite the legal interest rate ceilings, the moneylenders have adopted various methods from time to time to circumvent the ceilings. One device is for the moneylender to actually lend a much smaller amount than he indicates in the debt contract. Thus he might actually lend S.$200, but make out the contract for S.$400, thus doubling the rate of interest. In this way, it would not be unusual for a person to pay, say S.$10 a month interest on a credit of S.$200, i.e., a rate of 5 per cent per month. Most rates, however, would tend to be lower than this.

No published data are available on the volume of lending, but a rough estimate can be made. Informed sources have stated that in 1967 many of the registered moneylenders made about 15 loans per month, on the average, and that the amounts involved were usually less than S.$500 per loan. Assuming an average loan of S.$100, this would mean, with about 300 moneylenders, that S.$5.4 million in credits were extended during 1967. Needless to say, this estimate is very rough, but it gives some idea of the magnitude that may be involved.

Government Supervision

The private moneylenders are regulated by the Government on the basis of the 1959 Moneylenders Ordinance.[1/] This Ordinance was amended in 1967,[2/] mainly in an effort to prevent the moneylenders from charging higher interest rates than those legally permitted. For licensing the moneylenders, the Government maintains a Registrar of Moneylenders in the Ministry of Law, who is aided by a very small staff of only two persons. The Registrar himself does not attempt to actively police the moneylenders, but he does take appropriate action on all complaints brought to him. Active enforcement of the law rests largely with the Singapore Police Department, the Registrar and the courts.

Moneylenders are not allowed to advertise,[3/] but they are supposed to put up a sign board for the general public to see at their place of business. When registering, moneylenders are also required to give a business address.

The only published information on the private moneylenders is a list published once a year in the Government Gazette of all of the registered moneylenders. This is required under Section 7 of the Moneylenders Act.

Comment

The regulation and supervision of the moneylenders appears to have been helpful in protecting the general public from various abuses. However, it has been very difficult to enforce the legal interest rate ceilings on the loans, and in view of the risky nature of the business, the ceilings may be unrealistically low. Reportedly some of the borrowers are so desperate that they tend to sign anything. In addition, some persons reportedly borrow with no intention of repaying. Effective regulation will depend on recognition of the fact that if the demands of high risk borrowers cannot

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1/ Moneylenders Ordinance (No. 58) of 1959.
2/ Moneylenders (Amendment) Act of 1967. This Act was approved by the President on September 12, 1967.
3/ Sections 12 and 13 of the 1959 Ordinance.

be met legally, they will be met illegally. The setting of maximum interest rates at levels that deny any substantial number of borrowers access to funds will tend to produce blackmarkets in loans.

Stock Exchange

The Stock Exchange of Malaysia and Singapore is essentially a combined exchange operating as one unit. There are two trading rooms, one in Singapore and one in Kuala Lumpur, but they are linked by direct telephone and operate as a single exchange. Singapore does not have an over-the-counter market and there is no trading on margin. To a certain extent the operations of the Exchange have been patterned after those in Australia.

Brief History and Organizational Arrangements

The stock exchange, which has gone through several name changes, traces its history back to the late 1920's when certain Europeans opened their own curb exchange in Singapore and began to sell shares in overseas stocks. In the 1930's the group was placed on a somewhat more formal basis when a stock association was organized. After the Second World War the Stock Exchange Association of Malaya was established. Despite the split with Malaysia in August of 1965, the Stock Exchange of Malaysia and Singapore has continued to operate as a single combined unit.

Originally many of the stock listings were in rubber and tin shares. Since the early 1960's, however, most of the new listings have been for industrial companies. Between 1962 and 1967 the number of companies listed on the Exchange rose 30 per cent, but there was almost a 100 per cent increase (from 41 to 79) in the number of industrial, commercial and property companies.

The Stock Exchange is under the direction of a seven-man Stock Exchange Committee which is elected annually by the members of the Exchange. A Chairman and Deputy Chairman are elected from the seven by the members. The Committee selects a Manager to handle the day-to-day operation of the Exchange, and he is aided by a staff of about 17. Operating units are broken down into Research, Records, Trading Rooms, Posting Clerks, and General Service Clerks.

Although the Stock Exchange is advised, and occasionally instructed by the Ministry of Finance and the Bank Negara Malaysia (Central Bank of Malaysia), there is no specific stock exchange ordinance governing the activities of the Exchange. Also, the Exchange is not subject to the Companies Act.

Stock Listing and Trading Activity

Most of the major corporations in Singapore, except the large Jurong Industrial Estate,[1] are listed on the Stock Exchange. In October of 1967, 188 companies (and shares) were listed. These consisted of 64 rubber companies, 45 tin companies, and 49 industrial, commercial and property companies.

The listing requirements tend to be similar to those in Australia. New companies desiring to be listed must have a minumum paid-up capital of S.$2 million, and must provide other information which is then made available by the Exchange to shareholders.

About 40 per cent of the shares are listed on other stock exchanges, particularly in London and Australia. Of those shares listed elsewhere, about half are in London. A large number of them consist of rubber and tin shares.

Government bonds are also listed and traded on the Exchange. The government securities consist mainly of Singapore and Malaysian central government issues, as well as the municipal issues of Kuala Lumpur and Singapore. There are also a few issues by North Borneo and Sarawak.

The value of all listed stocks has increased substantially in recent years. Between 1962 and 1967, the value of issued, or paid up, capital for those stocks listed on the Exchange increased from S.$871 million to S.$1,929 million.[2] In October of 1967 the market value of all shares listed on the Exchange was S.6,468 million.

Data on the volume and value of trading activities have been available only since 1965 and 1966, respectively, so it is not possible to assess the trend in stock activity over a longer period. But trading has generally been rising since the early 1960's. In 1967 the value of all shares traded was S.$419 million.[3] Daily turnover in April of 1968 averaged about 1.8 million shares.

Several changes have helped to facilitate the increase in trading activity. In 1960 the Exchange instituted post trading. Under the previous system it was difficult and time consuming for a broker to find the best price for his customer, but with post trading, where certain companies are assigned to a particular post, the best offer is readily available. Also, in

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1/ The Jurong shares are held by the Government.
2/ "The Role of the Stock Exchange in the Economies of Malaysia and Singapore," Speech by Mr. J. Ballas, Chairman of the Stock Exchange on October 25, 1967, to the Singapore Institute of Management and the Stock Exchange Members, Singapore.
3/ Monthly Economic Bulletin, Bank Negara Malaysia, March 1968, Kuala Lumpur, p. 41.

1964 each member of the Exchange was permitted to have a representative in the trading room, and this also helped to facilitate increased interest and activity in stocks.

Types of Exchange Memberships and Commission

Basically only companies or firms are admitted as members of the Stock Exchange. However, any partner of a member firm is also a member of the Exchange. Consequently, a distinction can be drawn between "members" and "member firms." At the end of 1966 the Stock Exchange had 91 members and 25 member firms.1/ Should a partner leave a firm, he is automatically no longer a member of the Exchange unless he joins another member firm.

Seats on the Exchange are sold either for operation in Singapore or in Kuala Lumpur. In late 1967 the price of a Singapore seat was about S.$250,000 while in Kuala Lumpur it was M.$100,000. The price differential mainly reflects the heavier volume of trading which takes place in Singapore. The Stock Exchange does not have any specific limit on the number of seats that may be purchased. Between 1962 and 1967 the number of seats increased by 6, or from 19 to 25.

A distinction is made between "assistants" and "remisiers." The assistants are allowed to serve the general public on behalf of the firm. The remisier mainly performs the service of bringing business to the firm, and for this he is paid a half commission.

In Singapore, the brokers sometimes refer to themselves as "stock and share brokers." "Stocks" are the unnumbered certificates, while "shares" are numbered certificates.

The commission rate is basically about 1 per cent, although it is slightly higher for shares priced under S.$1.50. This rate is lower than those charged on many other leading stock exchanges.

As an added inducement to encourage investment by the general public in securities, the Stock Exchange maintains a Fidelity Guarantee Fund. This Fund, which totals S.$250,000, helps safeguard the investing public in the event of a failure of a member firm to meet its commitments.

Stock Averages and Publications

The Stock Exchange compiles and publishes several stock indexes, but not a single composite index which includes all types of stocks. The four indexes published after each trading day include, industrials, properties

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1/ Annual Report and Accounts of the Committee: 1966, Stock Exchange of Malaysia and Singapore, Singapore, 1967, pp. 23-24.

mining (mainly tin shares) and dollar rubbers. Data on both the volume and value of trading in these four groups, plus sterling rubbers, are also published by the Exchange.

The Stock Exchange produces a substantial number of publications. These include: *Annual Report and Accounts of the Committee*; *Gazette* (a monthly bulletin); *Company Reports: Handbook for Malaysian and Singapore Companies on the Official List*; *Stock Exchange of Malaysia and Singapore Listing Manual*: and *Stock Exchange of Malaysia and Singapore By-Laws*. In addition, the Exchange has also published the following pamphlets: "Transacting Business with Stock and Sharebrokers," "Option Dealings," "How to Invest in Stock Exchange Securities," "Service to Investors," and "Informing the Market: Suggestions and Reminders for Company Directors."

Some Conclusions

The growth in activity of the Stock Exchange during the 1960's has been impressive, and the Exchange has served as an important source of capital funds for the country. The growth has been both steady and substantial, yet not at the sacrifice of financial soundness. Between 1962 and 1967 post office savings, fixed deposits and savings bank deposits increased 71 per cent, but the issued capital of the companies listed on the Stock Exchange rose 120 per cent.

By requiring listed firms to divulge certain information, and then by making this available to potential investors, the Exchange has helped to stimulate greater investor interest and confidence, and hence has aided the mobilization of capital for productive investment. Singapore, according to one informed observer, has about 40 per cent of the total wealth of Malaysia and Singapore, and therefore presents a fertile market for increased sales of securities. These trends have not been lost on the unlisted firms, since an increasing number of companies have been "going public."

Despite the political separation of Malaysia and Singapore in August of 1965, the Stock Exchange has managed to carry on a very effective joint operation. This arrangement is probably the only such operation in the world and in this sense is unique. The separation has, of course, created distinctions in company domiciles and citizenships, but so far this problem does not appear to be very serious.

Insurance Companies

In October of 1967 Singapore had 81 insurance companies. Of this total, 12 were local companies incorporated in Singapore while the other 69 were foreign companies incorporated elsewhere. All of the companies were privately owned, none being owned by either domestic or foreign governments. Of these companies, 68 were conducting general insurance business, 7 companies life insurance business, and 6 companies both life and general insurance business.

Types and Volume of Insurance

A fairly wide variety of insurance is provided by the insurance companies in Singapore. Life insurance is important, and also marine, fire, automboile, and aviation and transit insurance. Other types of insurance sold include personal accident, public liability and workmen's compensation.

Some idea of the volume of insurance activity is provided by the amount of life insurance in force and the premium income derived from general insurance. At the end of 1965, the total amount of life insurance outstanding was S.$370 million, and the premium income for the general insurance companies during 1965 was S.$44 million. 1/

Assets of the Insurance Companies

The total assets of the life insurance companies have generally been much larger than those of the general insurance companies. At the end of 1965 the life insurance companies had total assets of S.$95 million as against total assets of S.$51 million for the general insurance companies.

The different assets of the insurance companies tend to be distributed rather broadly among a variety of items. Investments in 1965 of the life insurance companies, for example, were the heaviest in "Debentures and Shares" and "Government and Local Government Securities." General insurance companies had over half of their assets in "Property" and "Cash." Specific data are provided in Table 6 below for December during the country's first year of independence.

Table 6. Distribution of Insurance Company Assets at the End of 1965

Life Insurance Companies Item	%	General Insurance Companies Item	%
Debentures & Shares	27.6	Property	27.7
Govt. & Local Govt. Securities	22.6	Cash & Cash Deposits	25.5
Property	15.1	Outstanding Premiums & Misc.	18.6
Mortgages	14.0	Govt. & Local Govt. Securities	12.5
Policy Loans	10.6	Debentures & Shares	9.9
Cash & Cash Deposits	6.4	Mortgages	4.1
Other	3.7	Other	1.7
TOTAL 1/	100.0	TOTAL 2/	100.0

1/ In absolute terms, the total was S.$95,038,041.
2/ In absolute terms, the total was S.$51,155,307.
SOURCE: Annual Report of the Insurance Commissioner for 1965, Office of the Insurance Commissioner, Singapore, 1967.

1/ Annual Report of the Insurance Commissioner for 1965, Office of the Insurance Commissioner, Singapore, 1967.

In general, the investments in property tend to be in existing real estate rather than in new construction. General insurance companies have also tended to maintain a higher level of cash reserves than the life insurance companies.

For purposes of comparison, it is interesting to note that total insurance company assets at the end of 1965 were S.$146 million, or 6 per cent of total commercial bank assets, which were S.$2,382 million. Although this is not large, it is not insignificant either, and there is a good prospect that the proportion will rise as the country continues to develop.

Interest Rates on Policy Loans and Dividend Payments

The interest rates charged on loans against the cash value of life insurance policies tend to be lower than the interest rates charged by commercial banks. Late in 1967 the rate for loans against life insurance policies was generally about 6 per cent. In contrast, the prime rate for commercial banks at the same time was 7.5 per cent.

The rate of dividends paid on life insurance policies is difficult to measure. In 1965 several of the companies declared dividends ranging from S.$28 to S.$35 per S.$1,000 of the sum insured. The effective dividend yield to the policy holder after taxes in 1965 varied from 3 to 14 per cent per annum, with an 8 per cent rate being common.

Government Regulation and Publications

It is only recently that Singapore has undertaken its own internal regulation of the insurance industry. Prior to independence in August of 1965 the companies were regulated by the Malaysian Insurance Commissioner in Kuala Lumpur. On January 1, 1967, Singapore's new insurance act,[1] came into operation, and in May of 1967 the Office of the Insurance Commissioner was established in Singapore under the Minister of Finance. The Office is relatively small and in late 1967 had a staff of five persons.

The insurance companies are required to submit reports annually to the Insurance Commissioner. His office in turn publishes an Annual Report on the Industry.[2] Some additional data on the insurance companies are also available from other sources.[3]

1/ Insurance Act of 1966.

2/ The Annual Report of the Insurance Commissioner for 1965 was published about April 1967.

3/ See, for example, AFIA Guide Pacific, American Foreign Insurance Association, New York, June 1967, pp. 10-11; and Singapore Year Book: 1964, Government Printing Office, Singapore, 1966, p. 94.

Comment

The insurance industry in Singapore has served as a moderate source of funds for financing a wide variety of activities. The industry is active and growing, and has the potential of playing a larger financial role in the country as individual incomes increase and insurance becomes more widespread. The price stability in the country, which is likely to continue under the Currency Board arrangement, should be conducive to a further expansion in the volume of life insurance.

Board of Commissioners of Currency

Since the Board of Commissioners of Currency, Singapore, performs one of the major functions of a central bank--the issue of currency--it has been included here as one of Singapore's financial institutions. Its current operations are to a large extent automatic, and are laid out in some detail in the Currency Act of 1967. The Board, incidentally, is assisted in some of its accounting activities by the Government's Accountant-General, especially for the currency interchangeability arrangements.

A Brief History of Previous Currency Arrangements

For 60 years, from 1906 to 1966, Singapore had essentially the same basic currency arrangements. 1/ These were a currency board to manage the currency, 100 per cent or more backing in sterling behind the currency, and automatic changes in the currency issue in response to demand and supply conditions including balance of payments developments. The system was essentially a Sterling Exchange Standard. During the early part of this period up to 1940, the main currency was the Straits dollar, and this was later superceded by the Malaya dollar after the end of the Second World War. 2/

New Currency legislation was passed in 1950 which had the effect in 1952 of establishing a single (Malayan) currency area incorporating the present-day Malaysia, Singapore and Brunei. New bank notes were issued in 1954 by the Board of Commissioners of Currency, Malaya and British Borneo, Although the Federation of Malaya achieved its independence in August of 1957, the currency system was not changed. The Malayan dollar continued to circulate in Malaya, Singapore, Brunei, Sarawak and North Borneo.

The 1950 legislation was replaced in 1960 by a new Malaya British Borneo Currency Agreement which became effective January 1, 1961. The Currency Board was enlarged, provision was made for a fiduciary issue of up to M$300 million (although this facility was never used), and it was

1/ See Chiang Hai Ding, "A History of Currency in Malaysia and Singapore," from The Monetary System of Singapore and Malaysia: Implications of the Split Currency, University of Singapore, 1967, p. 6.
2/ For additional details, see *ibid.*, pp. 1-9.

specified that this agreement could be discontinued 18 months after notice had been served. Prior to the establishment of Malaysia in September of 1963 the Financial Secretary of Singapore served as Chairman of the Currency Board.

Since September of 1963, when Malaysia was established, the Minister of Finance of Malaysia has served as Chairman of the Currency Board and the Minister of Finance of Singapore as Deputy Chairman. The Board also has representatives from Sarawak, Sabah 1/ and Brunei. This Board was not dissolved on June 12, 1967, when Singapore, Malaysia and Brunei began to issue their own currencies, and it continued to operate during 1968, redeeming the old currencies.

Although Singapore became an independent country on August 9, 1965, it continued to adhere to the currency union arrangements. In the meantime, both Singapore and Malaysia held discussions to see if a suitable formula for the continuance of a common currency could be found following the termination of the Malaya British Borneo Currency Agreement of 1960. Since Singapore favored adhering to a currency board arrangement,2/ while Malaysia desired to have its central bank manage the currency, there was evidently too large a gap to bridge by common agreement, and it was announced on August 17, 1966, that the two countries would have separate currencies beginning June 12, 1967.

On January 7, 1967, Singapore, Malaysia and Brunei reached agreement in principle on the interchangeability of their respective currencies. Details on this agreement were announced later on June 5, 1967.

In preparation for issuing its own currency, Singapore enacted the "Currency Act, 1967," on March 16, 1967. This Act repealed the Currency Ordinance of 1960 but left standing the provisions of the 1960 Malaya British Borneo Currency Agreement relating to the establishment of separate currency authorities.3/ Later, on December 2, 1967, it was decided by Singapore, Malaysia and Brunei, that the old Malayan currency would continue to have the legal tender power through December of 1968. It was felt that this would give the general public ample time to exchange their old currency for the new.

On June 12, 1967, the new Singapore dollar was put into circulation and it began to replace at par the Malayan dollar which had remained in official use since Singapore's independence in August of 1965. Singapore established a par value with the International Monetary Fund for the

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1/ Formerly British North Borneo.

2/ International Financial News Survey, International Monetary Fund, Washington, D. C., September 9, 1966, p. 299.

3/ This permitted the continued operation of the Board of Commissioners of Currency, Malaya and British Borneo.

Singapore dollar of 0.290299 grammes of fine gold per dollar,[1/] the same parity which was first established with the IMF on July 1, 1944. Officially, the par value of the Singapore dollar is tied only to gold.

Objectives of the Act and the Composition of the Currency Board

The main objectives of the Currency Act, 1967,[2/] are to provide Singapore, an independent country, with its own organization for issuing and managing currency matters, and to establish a national currency. The Act specified that the vehicle to be used for the issue and management of the currency shall be a currency board.

The currency board has the official title of Board of Commissioners of Currency, Singapore, and is a corporate body with perpetual succession. The Board has six members, consisting of a Chairman, Deputy Chairman and four others "...possessing recognized banking, financial or business experience...." [3/] The Minister of Finance serves *ex officio* as Chairman of the Board, and the Deputy Chairman is appointed by the President of Singapore, the term of office currently being for a one-year period with re-appointment being possible. The four other members are also appointed by the President, also for a one-year term of office.

The Board is required to meet at least once a year and the voting is weighted. The Chairman and the Deputy Chairman each have two votes, while the other four members each have one vote. In the event of an equality of votes, the Chairman presiding at the meeting has the casting vote.

Powers of the Board and the Currency Fund

The Board has the sole right to issue notes and coins in Singapore. But the Board also has an obligation to maintain free convertibility for the bank notes. In practice this means paying out sterling in London on demand to any person presenting the equivalent value in Singapore currency notes, or conversely, issuing Singapore currency notes on demand to any person presenting the equivalent value in sterling.[4/] The Board also has the power to charge a commission on any conversion of Singapore's notes and coins into foreign exchange and vice versa.

The Act establishing the Currency Board also established a Currency Fund consisting of convertible foreign assets. This Fund, which serves as backing for the notes, assures their redemption in convertible foreign exchange. The value of the Fund is to be maintained equal to at least 100 per cent of the face value of the Board's currency notes and coins in circulation.[5/] No provision is made in the Act for a fiduciary issue.

1/ This is equivalent to about 33 U.S. cents per Singapore dollar.
2/ Act No. 5 of 1967, assented to by the President on March 16, 1967.
3/ Section 16, (1) of the Currency Act, 1967.
4/ Section 16, (1) of the Currency Act, 1967.
5/ Section 25, of the Currency Act, 1967.

The Fund is to consist of gold, sterling, foreign exchange, securities of, or guaranteed by, foreign governments or international financial institutions, and any other external asset deemed suitable. These are fairly broad terms and they give the Board a substantial amount of leeway in deciding the composition of the Currency Fund.

However, the Act specified that at least 30 per cent of the Fund should be in liquid assets unless there is unanimous approval by all members of the Board that a smaller proportion should be held.1/ Liquid assets are defined in the Act as gold in any form, sterling and other foreign exchange in the form of demand, or time deposits maturing within two years, bank balances and money at call, treasury bills, notes or coins, and securities maturing within two years of, or guaranteed by, foreign governments or international financial institutions.

All earnings from the Currency Fund and commissions paid to the Board are paid into a Currency Fund Income Account. Charged against the Income Account are all legitimate Board expenses. If the Income Account registers a surplus at the end of the year, this is first used to make up any deficiency in the Currency Fund, and any balance is then paid into the Government's Consolidated Fund. If the Income Account registers a deficit, this amount is charged to, and paid out of, the Consolidated Fund. In addition, if the value of the Currency Fund at the end of the year exceeds the face value of the Board's currency notes and coins in circulation, then the Board may direct that all or a part of the excess be transferred from the Currency Fund to the Income Account.

The Interchangeability Arrangements and June 12, 1967

On January 7, 1967, agreement was reached in principle by Singapore, Malaysia and Brunei on a system of free interchangeability of their respective currencies. Additional details on the interchangeability arrangements were announced by Singapore and Malaysia on June 5, 1967.

The net effect of the arrangement is to have banks in each country accept at par and without charge the bank notes and coins issued by the currency authority of the other country, and to have the accepting bank provide local currency in exchange. The arrangement also provides for each currency authority to repatriate the notes and coins issued by the other authority, and to receive, at par value, the equivalent in sterling or some other agreed currency. The shipment and other costs are borne by the currency authority in the recipient country and not the commercial banks. After a certain period, any net balances due are settled in sterling or some other agreed currency.

1/ Section 23, (4) of the Currency Act, 1967.

The arrangement, which is only an inter-governmental agreement and not a law, can be terminated at any time by written notice. There is no waiting period, unlike the previous currency arrangement. The participating parties in the arrangement are the Board of Commissioners of Currency, Singapore, the Bank Negara Malaysia, and the Board of Commissioners of Currency, Brunei.

On June 12, 1967, Singapore began to issue its own currency in the form of bank notes. The new coins had not yet been readied for circulation, and they were first put into circulation on November 20, 1967, just after the British devaluation of sterling.

The Effect of the Sterling Devaluation

The devaluation of sterling on November 18, 1967, created some problems for Singapore and also brought forth some data on the currency situation. As Singapore did not change its exchange rate, the country suffered an exchange loss as a result of the 14.3 per cent devaluation of sterling. This amounted to aporoximately S.$104 million or US$34 million.1/ On November 22, 1967, about half of Singapore's international reserves of S.$1,252 million was in sterling, S.$513 million was in U. S. dollars, the rest being in German marks, Swiss francs, and French francs.

At this time about two-thirds of the old notes 2/ had been turned in to the authorities. Since the Currency Agreement of 1960 specified that all redemptions were to be effected at the rate of one dollar to two shillings four pence sterling, those persons redeeming their old notes after November 18 received only 85 new Singapore cents to the dollar since the new Singapore dollar, which is tied only to gold, was not devalued. The Singapore Minister of Finance argued that if the Government had agreed to compensate the holders of the old currency, it migh have cost the taxpayers S.$30 million.3/ This device enabled the Government to pass a part of its devaluation losses on to the public, but the equity of letting the burden fall only on the holders of the old notes was far from clear. (The Minister's statement indicated indirectly that there was about 210 million Malayan dollars still unredeemed in Singapore). The Singapore Government did, however, restore on November 24, 1967, the old 5-cent and 10-cent coins to their full value, i.e., parity with the new Singapore coins.

1/ Far Eastern Economic Review, Hong Kong, April 11, 1968, p. 106.
2/ That is, the notes issued by the Board of Commissioners of Currency, Malaya and North Borneo.
3/ Ibid., p. 108.

In March of 1968 a further change was made in the interchangeability arrangements to help facilitate currency transactions. The Accountant-General of Singapore opened an account in Malaysian currency for its use in Malaysia with the Bank Negara Malaysia, and similarly the Bank Negara Malaysia opened an account in Singaporean currency for its use in Singapore with the Accountant-General. These accounts since March have been used to settle any net balances due in connection with the repatriation of notes and coin between the two countries. Interest is chargeable on the daily balance, the rate at the time being 5.5 per cent per annum, and the settlement of the accounts is to be in sterling or any agreed convertible currency.1/

Government Audit and Publications

The main financial control exercised by the Government over the Board is an audit. This is conducted annually by the Government's Director of Audit.

The Board is also required to transmit annually to the President a copy of its annual accounts and its report. These are then to be published in the Government's Gazette, and as soon as possible thereafter, presented to Parliament. In addition, every third month the Board is required to publish in the Gazette an abstract showing the amount of currency notes and coins in circulation.2/ At half yearly intervals, the Board is required to publish in the Gazette an abstract of the liquid portion of the Currency Fund and the nominal value, the price paid for, and where appropriate, the latest known market price of the securities belonging to the Currency Fund.3/

Additional information on Singapore's currency, and the implications of a split currency, is contained in a series of four lectures reprinted in a University of Singapore publication.4/

Comments

Although the mechanics of a currency board arrangement are widely known, the benefits are probably not as widely appreciated. Under Singapore's currency board system, the currency will fluctuate, primarily with changes in public demand for currency and balance of payments developments. The latter aspect in particular exposes the economy to any buffetings from external developments, however, the benefits from the system are very impressive. There can be no problem of a foreign exchange shortage, an overvalued exchange rate, or a severe inflation, or loss of confidence in the

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1/ International Financial News Survey, International Monetary Fund, April 5, 1968, pp. 110-111.

2/ See, for example, Item No. 2212, "Abstract of Notes and Coins in Circulation, "Government Gazette, Republic of Singapore, July 26, 1968.

3/ Section 30 of the Currency Act, 1967.

4/ See The Monetary System of Singapore and Malaysia: Implications of the Split Currency, J. Purcal (ed.), University of Singapore, 1967.

currency.[1/] These benefits, in today's uncertain world, are very substantial. For Singapore, which depends so heavily on foreign trade and maintaining world confidence in its financial system, the currency board system is a cornerstone in the country's economic foundation.

Since 1965, when Singapore received its independence, there have been some economists, however, who have argued that the country would be better served by a central bank. The issue has therefore become controversial, but the Governments so far in power have firmly decided in favor of a currency board arrangement. If past history is a valid guide, this would appear to be a wise decision.

It should be noted, finally, that the Currency Act of 1967 is sufficiently flexible to permit the Board to reduce the proportion of its holdings of sterling in the Currency Fund. Sterling holdings have been reduced in recent years, and it appears likely that this trend will continue.

Economic Development Board

The Economic Development Board is a completely government-owned statutory body. However, its assistance, both financial and technical, has been extended only to the private sector. Until recently it operated somewhat like a development bank, and it has been quite successful since its establishment in achieving its objectives. In September of 1968 it turned over its financing functions to the newly established Development Bank of Singapore Limited.

Establishment, Purpose and Organization

In a move to give direction and impetus to Singapore's industrialization drive, the Government passed in 1961 the Economic Development Board Ordinance.[2/] The Board was incorporated on June 9, 1961, and began operations in August, with the first loans being made in 1962. The Board replaced the Singapore Industrial Promotion Board which had been established in 1957 and assumed its assets and liabilities.

The basic purpose of the Board is to facilitate the industrial and economic development of Singapore by helping to promote new private industries. This is to be accomplished by developing industrial estates, preparing feasibility studies, and offering technical advice and assistance. The Board is particularly anxious to encourage new foreign investment in Singapore.

1/ The last assumes no lack of confidence in the currency of redemption.
2/ The Economic Development Board Ordinance (No. 21) of 1961. The Ordinance was later amended on May 13, 1966. See Economic Development Board (Amendment) Act (No. 9) of 1966.

The Economic Development Board consists of seven persons appointed for three-year terms by the Minister of Finance, with the Chairman of the Housing and Development Board also serving on the Board ex-officio. The Minister of Finance appoints from among the seven a Chairman of the Board, who serves as a full-time officer, and also a Director, who carries out those duties delegated to him by the Board. The remaining five members are appointed as representatives of: (1) banking; (2) manufacturing; (3) commercial; (4) labor; and (5) professional and academic interests. The Board usually meets several times a month.

The Board in mid-1968 was organized into a Secretariat and six divisions.[1] The Projects Division and the Technical Consultant Services Division are quite large, the latter conducting evaluations of firms and industries for banks and other interested parties. The Board does not have any branches, but it does maintain seven investment promotion representatives overseas.[2] At the end of 1966 the Board had 583 employees including 31 foreign experts and consultants supplied by various international organizations, including the United Nations and Colombo Plan.

Nature of Operations and Sources of Funds

The operation of the Economic Development Board up to September 1968 was somewhat similar to that of a development bank. The Board not only extended credits, but also engaged in equity investments. The Board generally preferred to keep its equity participation in a company small, but it did increase its share of the equity for promising companies that had an initially weak profit position. Other important current operations include developing industrial estates, preparing feasibility studies, and providing technical assistance.

The Board possesses extensive powers to carry out its activities. Very broadly these include establishing and managing enterprises, buying, selling or leasing industrial sites, planning industrial estates, and providing technical assistance. Prior to September 1968 the Board also extended and guaranteed credits, and underwrote securities. The Board's operations are very broad and even include the operation of ocean fishing vessels.

The Board's major source of funds is the Government of Singapore. The Board's Capital Fund of S.$100 million has been fully appropriated by the Government and received by the Board. The Government does not receive any return on this Fund, the Board's surplus generally being allocated to the General Reserve or Industrial Investments Reserve. The Board has also received from the Government an appropriation for the Industrial Estates

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1/ These are: (1) Investment Promotion; (2) Finance; (3) Projects; (4) Technical Consultant Services; (5) Civil Engineering; and (6) Industrial Facilities.

2/ These are located in: (1) New York City; (2) Kirkland, Washington; (3) Honolulu; (4) Hong Kong; (5) Melbourne; (6) Bangkok; and (7) London.

Development Fund, which includes both a Revolving Fund and a Development Fund. The Board has been paying interest on the former, but during 1966 interest totalling S.$2.1 million on the latter had yet to be agreed to by the Government.1/ At the end of 1966 the Capital Fund and the I.E.D. Fund totaled S.$196 million, or 83 per cent of the Board's total liabilities. Most of the other liabilities of the Board on the same date consisted of a S.$17 million loan from the Government for the large Jurong Housing Project2/ and S.$17 million in two reserve funds.

The Board does not maintain demand, time or savings deposit liabilities, however, it does receive revenue from rents and services, and prior to September 1968 from loans and investments. Although it has the power to do so, the Board has not yet issued any bonds or debentures.

Type of Loans and Credit Terms

The Board was basically engaged in providing industrial finance up to September 1968. This took the form of loans and equity investments. Bonds and debentures issued by companies were generally not purchased by the Board. In some cases the commercial banks served as a conduit for allocating the Board's funds to industry. Funds were placed in the banks with the proviso that they be used to finance only certain approved industries. Frequently banks, on the basis of an evaluation by the Light Industries Services Unit of the Board, would assume the risk of financing industrialists.3/ The Board's policy was to divest itself of the equity as soon as a firm was successful and a suitable private purchaser could be found.

Credits were provided to a wide variety of industries. Some of the more important ones that received credits included those producing metallic and engineering products, food and beverages, wood and paper products, non-metallic minerals and chemicals. Particularly prominent industries were plywood, textiles, shipbreaking and flour mills. The Board's equity participation was significant in iron and steel, shipyards and feedmills.

Borrowers from the Board were required to file comprehensive financial forms and data. The desirability of the project was approved by the appropriate Project Officer of the Board, and the project itself had to be one that had the prospect of providing adequate profits in the long run. The Board maintained close contact with the borrower, visiting the factory periodically and at times having a nominee on the borrower's Board of Directors.

1/ Annual Report: 1966, Economic Development Board, Singapore, 1967, pp. 81-2.
2/ Some of the funds for this project came from the Central Provident Fund.
3/ Development Banks in Asia, The Japan Development Bank, Tokyo, 1966, p. 137.

The Board basically tried to lend to industry at an interest rate comparable to the prime rate of local banks,[1] and thus altered the rate in line with changing market conditions. In August of 1965 the rate was increased from 6 to 7 per cent,[2] and in 1967 it was raised again to 7-1/2 per cent. The interest rate was the same, regardless of the maturity of the credit.

Most maturities ranged from 5 to 8 years, however, if the amount were large, the period could be extended to 10 years. Some credits were also extended for 3 years.[3] Repayment of the credit generally began several months after the commencement of commercial production in the borrower's factory.

The amount of credit a borrower obtained depended on the use to be made of the funds. The Board lent up to 50 per cent of the cost of imported equipment, but for buildings it would provide up to 80 per cent of the total cost.

Volume of Loans and Investments

The Board's volume of outstanding loans and equities increased each year between 1961 and 1966, as indicated in Table 7 below.

Table 7. Loans and Equity Holdings of the Economic Development Board
(In millions of Singapore dollars at the end of year)

	1961	1962	1963	1964	1965	1966
Loans	0.1	4.2	9.8	16.0	32.2	37.5
Equity Holdings 1/	0.1	1.3	3.1	7.4	13.7	19.3
TOTAL	0.2	5.5	12.9	23.4	45.9	56.8
Annual Increase	--	+ 5.3	+ 7.4	+10.5	+25.4	+10.9

1/ At cost.
SOURCE: Annual Reports, Economic Development Board.

In 1966, the rise was substantially less than in 1965. This was partly because the split from Malaysia created economic uncertainties, led to some increase in tariffs, and reduced the size of the internal market for Singapore firms.

1/ Far Eastern Economic Review, Hong Kong, April 11, 1963, p. 101.
2/ Development Banks in Asia, op. cit., p. 136.
3/ Ibid., p. 137.

The Board also held a substantial amount of other assets. At the end of 1966, these assets and their respective values were: (1) "Industrial Estates Development" (S.$94 million); (2) "Short-term Investments" (S.$42 million); and (3) "Jurong Housing Project" (S.$18 million). Total assets for the same date were S.$236 million.1/

Government Supervision and Publications

In general, the Board was subject to relatively few financial statutory requirements. The Board was not required by law, for example, to set aside a certain portion of its net earnings as reserves. As a matter of practice, however, it established and built up a General Reserve and an Industrial Investments Reserve.2/

No limitations were formally stated for the Board's lending operations, either in the aggregate or by individual borrowers, but the Board established some self-imposed limits on its operations. In principle, the Board's credit had to be matched by at least the same amount of equity investment by the borrower. As indicated earlier, limits were set on the proportion of imported equipment and local construction that could be financed.

The Board has an internal audit, and Section 21 of the Board's Ordinance required the Minister of Finance to appoint a qualified auditor each year to conduct an external audit of the Board's operations. For this purpose, a private firm of chartered and public accountants is hired. A copy of the auditor's statement of account and report is presented annually to Parliament.

The Board is also required to prepare an annual report on its operations for both the Minister and Parliament. Annual reports have been published since 1963, covering the calendar years since 1962. The Board also publishes certain promotional literature. In 1967 these included, "What Singapore Offers the Investor," "Guide to Industrial Investment in Singapore," "The Jurong Story," and "The Functions of the Economic Development Board."

Conclusion

The Economic Development Board has made a significant contribution to Singapore's industrialization. Many new industries have been established and financial assistance from the Board has facilitated the expansion of many smaller establishments. The Singapore banks are still somewhat

1/ For additional details, see Annual Report: 1966, Economic Development Board, Singapore, 1967, pp. 81-2.
2/ At the end of 1966 the amounts in each were S.$12 million and S.$5 million respectively.

inexperienced in the field of industrial finance and the Board has played a useful role in expanding their interest and participation in this area. These financing functions will now be carried on by the new Development Bank of Singapore.

The separation of Singapore from Malaysia in August of 1965, however, has created problems, and it also appears to have slowed the pace of industrial financing. In 1966 this was reflected more in the Board's loan activity than in its equity participations. Some industries that the Board was planning to establish have had to be reconsidered in view of the loss in production efficiency as a result of serving a smaller market area.

Development Bank of Singapore Limited

The Development Bank of Singapore was established in September 1968 as a result of a spin-off of the financial activities from the Economic Development Board. The Bank is quasi-governmental, since some of its shares are owned by local financial institutions. Its main activity is providing medium-and long-term financing to the secondary and tertiary sectors of the economy.

Establishment and Purpose

The Development Bank of Singapore Limited was established as a result of the transfer of the financial functions, including the loan and equity portfolios, of the Economic Development Board to the Bank. The Bank was incorporated on July 18, 1968, and began its operations on September 1, 1968, It was incorporated under the 1967 Companies Act and the 1958 Banking Ordinance. On October 1, 1968, it offered to the financial institutions in Singapore, S.$25 million of its shares for capital subscription.

The basic purpose of the Bank is essentially the same as it was for the financial section of the Economic Development Board, namely, providing the financing for manufacturing and other industrial activities in Singapore in the form of term loans, equity participation and guarantees. As much as possible, the Bank is to encourage equity participation in enterprises by both the Government and public, but to aovid any direct competition with commercial banks. In taking this step, the authorities hope to streamline the activities of the Economic Development Board, and by establishing a separate Bank, to see that the financing functions are performed quicker and more effectively.

The Bank will be under the control of a 5- to 15-man Board of Directors, and an Executive Committee consisting of four Directors. For the time being the Chairman of the Economic Development Board is serving as both Chairman of the Bank and its President. Key financial personnel have been transferred from the Board to the Bank, and while the Bank was also sharing the same premises with the Board at the end of 1968, the Bank expects eventually to be established in its own building.

Sources of Funds

The Bank has a total authorized capital of S.$200 million. Of this, S.$100 million is to be raised in 1968-69 and utilized during the first three years of the Bank's operations. S.$25 million in shares were offered in October of 1968 to local banks, insurance companies, and other financial institutions, and an additional S.$26 million will be offered later to the general public. The remaining S.$49 million represents the capital shares subscribed by the Government, S.$6 million of which was subscribed before September 20, 1968.

In addition the Bank will assume liability for about $48 million in debentures issued to the E.D.B. by its borrowers. In turn, the Bank will finance this acquisition by accepting an 8-year, 4 per cent loan from the Government in the same amount. The Government will also offer a 12-year, 4 per cent credit to the Bank in the amount of S.$30 million, and at a later time, further lines of credit at 4 per cent interest up to S.$50 million.1/ The Bank also hopes to obtain capital from the International Bank for Reconstruction and Development, the Asian Development Bank and a German government credit bank.

In its early stages, it is not contemplated that the Bank will attract any substantial volume of time or savings deposits. However, Section 3(b) of its memorandum of Association does permit it to accept "...money and valuables on deposit" and "...to carry on the business of banking."2/

The Nature of Lending Activities

The Bank expects to finance mainly secondary industry, particularly manufacturing, and also various service industries. The Bank will continue the Board's practice of extending both term loans and loan guarantees,3/ as well as engaging in equity participation and underwriting activities. The Bank also expects to provide some working capital loans, but mainly in those cases were such credits cannot be obtained from commercial banks in order to avoid direct competition with those institutions.

1/ *Prospectus*, The Development Bank of Singapore Limited, Singapore, September 25, 1968, p. 8.

2/ *Memorandum of Association of the Development Bank of Singapore Limited*, D.B. of S.L., Singapore, 1968, p. 1.

3/ Contingent liabilities in respect of E.D.B. guarantees of about S.$20 million were assumed by the Bank in September 1968.

In those cases where the Bank is utilizing the Government's first line of credit and the net repayments on E.D.B. debentures, the interest rate on its loans is not to exceed 7 per cent.

Since its establishment the Bank has already engaged in two projects via the extension of loans or equity participation. One is for the construction of a hotel and the other is for a paper factory. At a later stage the Bank hopes to extend both long-term credits and guarantees to help finance Singapore's exports.

Comments

The Bank is too new to assess its success in achieving its stated goals. However, the Bank appears to be well-conceived and should play a very useful role in mobilizing and financing industrial development. By segregating in a separate institution the financial activities of the Economic Development Board, it should be possible to concentrate attention more carefully on all of the financing aspects involved in assisting industry. By creating a separate entity, the task of raising funds should also be eased, as compared with the earlier financing of the Economic Development Board.

Singapore Post Office Savings Bank

The Singapore Post Office Savings Bank is an older institution which dates from 1902. It extends no loans, but instead invests all of its funds in long-term debt securities, largely sterling assets. Since 1955 the Bank has suffered from a decline in deposits primarily because the rate of interest paid on its deposits is less than that paid by other relatively safe institutions.

Establishment and Organization

The Singapore Post Office Savings Bank was first formed as a separate entity (inclusive of Labuan and Christmas Island) in 1949. However, the institution first began operating in 1902 as the Straits Settlements Post Office Savings Bank with depositors from Singapore, Penang and Malacca. Up to July 7, 1966, the Bank was managed and controlled by the Postmaster-General in Kuala Lumpur, but after that date its operations were taken over by the Government of Singapore. The Bank's basic ordinance dates from 1949.1/

The Bank is not a corporation, but rather a government entity without any formal capital. In lieu of a capital account, the Bank maintains a balance sheet item labeled "Excess of Assets over Liabilities." At the end of 1965 this item was equal to 1 per cent of the Bank's total assets.

1/ The Post Office Savings Bank Ordinance (Chapter 106), January 1, 1949, reprinted with amendments, etc., on January 20, 1966.

The basic purpose of the institution is mainly to encourage thrift, rather than to provide a source of funds for the government. The Bank helps to encourage saving by providing a safe place for funds with an assured rate of return. 1/

Although the P.O. Savings Bank Ordinance assigns to the Minister of Finance the basic direction of the Bank, in actual practice in recent years decisions on important matters, such as the interest rate paid on deposits, have been vested in the Deputy Prime Minister.

The day-to-day operations of the Bank are under the Controller of the Post Office Savings Bank, who also serves as Assistant Controller of Posts. The next two higher-level officers for the entire postal system are the Postmaster-General, and the Controller of Posts (Administration). All of these officers and the staff are civil servants.

The Bank operates through its headquarters and 40 post offices. The headquarters operation is simple, being divided into: (1) Finance and Accounts; (2) Passbooks and General; and (3) Machine Operations, I and II. In October of 1967 the Bank's headquarters staff consisted of only 38 employees.

Sources of Funds and Interest Rates Paid on Deposits

The Bank's main source of funds is its deposits. Although some funds are obtained from retained earnings, these are relatively small. No funds are obtained from the Government or any financial institution. Once the Bank's assets exceed its liabilities by at least 15 per cent of the liabilities to depositors, then the Minister of Finance may direct the Bank to transfer any excess of revenue over expenses to the government's Consolidated Fund. 2/

Deposits are handled by means of a passbook system and S.$1 is the minimum amount for an account. Interest is paid on the basis of the calendar year, each depositor having a certain month in which to submit his passbook for the recording of interest earned. All deposits are made on a strictly voluntary basis.

After the end of the Second World War the Bank paid 2.25 per cent per annum on deposits. Later this was increased slightly to 2.5 per cent, and on August 1, 1965, the rate was increased to 3.0 per cent. About the same time in 1965, the interest rates paid by the commercial banks on savings deposits were also increased. On May 1, 1968, the rate was increased to 4.0 per cent.

1/ If the Bank's revenue in any year is insufficient to pay the interest due to depositors, the deficiency can be paid out of the Government's Consolidated Fund. (Article 13 of the Ordinance).

2/ Article 13, P.O. Savings Bank Ordinance.

The Bank had a fairly steady growth in deposits during the post-war period up to 1955. That year turned out to be a watershed. From a high of S.$57.6 million in deposits outstanding at the end of 1955, deposits outstanding fell steadily to S.$37.8 million at the end of December 1967.

Although the Bank has lost deposits on a net basis, the number of depositors has continued to rise steadily. At the end of 1950 the Bank had 80,862 active accounts. By 1955 this had increased to 154,668, and by 1965 it was up to 247,082.1/ As implied by these data, the average amounts deposited have been smaller. The amounts began to decrease in 1955, but during the 1960's they stabilized at about S.$93 per year.

Besides its deposit activity, the only other major service of the Bank is to transfer savings accounts between Singapore, Malaysia and the United Kingdom. This has been important, particularly because of the close economic ties between Singapore and Malaysia.

Investment Activities

The Savings Bank as a matter of policy uses its funds solely for the purchase of investments and makes no loans. Virtually all investments are in long-term securities of public or governmental bodies, rather than private entities. In recent years the Bank has followed a policy of converting sterling securities, as they matured, to local securities.

At the end of 1966 the Bank's investments, based on market value, were S.$35.8 million. The largest part of these consisted of sterling securities. Broken down by geographical origin, the investments were: United Kingdom, S.$18.8 (52 per cent); Malaysia, S.$1.3 million (4 per cent); and Singapore, S.$15.8 million (44 per cent). Basic investment decisions on the portfolio are made by the Minister of Finance.2/

The volume of investments has, of course, changed in consonance with the level of deposits. Consequently, there has been a general decline in the Bank's investments since 1955 in line with the trend in savings deposits.

Government Supervision and Reports

The Bank is not subject to any minimum reserve fund requirements. As mentioned earlier, however, depositors are fully protected since the Bank's assets are liquid, and any insufficiency of funds can be met by payments from the Government's Consolidated Fund.3/

1/ Annual Report: 1965, Singapore Post Office Savings Bank, Singapore, 1967, p. 10.
2/ Article 11, P.O. Savings Bank Ordinance.
3/ Article 8, P.O. Savings Bank Ordinance.

Changes in the rate of interest paid on deposits originate with the Deputy Prime Minister, and they must also be approved by him.

The Bank is audited each year by the government's Director of Audit, but there is no internal audit or bank examination. The annual account of revenue and expenditure, as well as a statement of assets and liabilities, must be presented each year after the audit to the Parliament.[1/] This is made available to the public as the Annual Report of the Singapore Post Office Savings Bank. Selected data on the Bank's deposits also appear in the Monthly Digest of Statistics prepared by the Chief Statistician and published by the government's Department of Statistics.

Some Conclusions

The Post Office Savings Bank has performed several useful functions in that it has provided a safe place for savings with a rate of return, and some funds for the Singapore Government. However, the volume of deposits is not large relative to the entire financial system, and the bank's importance has generally been declining since 1955. This has been due to the relatively low interest rate paid on deposits which is not competitive with other financial outlets for savings despite an increase in the rate in May of 1968. Since the mid-1950's, the commercial banks, and more recently the stock market and finance companies, have become increasingly attractive to savers. Depositors are able to earn 6 per cent on funds placed with the finance companies, as against only 4.0 per cent in the Savings Bank.

In Malaysia, however, the volume of post office savings has continued to grow because of the relatively large rural area not yet reached by commercial banks. In Singapore, higher yielding outlets for savings are readily accessible.

Central Provident Fund

The Central Provident Fund is an independent statutory body set up basically to provide a lump sum retirement payment to employees. The program is widespread, covering about 23 per cent of the population, and the accumulated investments are substantial in relation to other sources of funds.

1/ Article 12, P. O. Savings Bank Ordinance.

Legislation, Purpose and Organization

On December 11, 1953, the Central Provident Fund Ordinance was approved, and it was under this Ordinance that the Central Provident Fund was established. After some delay, the Fund began its operations on July 1, 1955.1/

The Fund did not begin with any government-appropriated capital, but it did obtain a short-term loan of S.$600,000 from the Government in order to commence its operations. This loan was repaid a year and a half later.

The basic purpose of the Fund is to provide workers with a substantial sum of money when they cease working in Singapore for one reason or another. These funds can then be used by the workers to sustain themselves.

The Fund is under the direction of a seven-man Board appointed by the Ministry of Labor. The Chairman is supposed to be independent and not subject to undue influence from pressure groups. However, in actual practice it has been difficult to achieve this ideal. In 1967, for example, the Chairman was a civil servant, which mitigated to some extent, against complete independence.

The other six members of the Board are supposed to represent three groups, with two members assigned to each group. The three groups are the employees, the employers, and the Government. In recent years, the Government representatives have usually consisted of the Permanent Secretaries from the Ministries of Finance and Labor. The term of service is normally for three years and members are eligible for reappointment.

The day-to-day operations of the Fund are under the direction of a General Manager and a Deputy General Manager. Four administrative officers supervise operations for the following units: Electronic Data Processing; Enforcement; Cash Accounting; and Registration and Main Accounts. In October of 1967 the Fund had about 170 employees.

Employee Coverage

The Provident Fund arrangements are designed to cover employees in Singapore, but not those government employees (usually at a higher level) that are eligible to receive a government pension. To be eligible for the

1/ Singapore Year Book: 1964, Government Printing Office, Singapore, 1966, p. 355.

program, an employee must be under a contract of service. Those workers not working for someone else on the basis of either a written or oral contract would not be eligible.

Originally those employees who worked for an employer for less than three months were not included in the program. In 1964, however, the Ordinance was amended so as to make employees eligible irrespective of the duration of their employment. In addition, the Ordinance is applicable to all eligible employees, even if the employer has only one employee.

Participation in the program is mandatory for all those employed under a contract of service. The initiative, however, rests with the employer who must register with the Central Provident Fund (C.P.F.) and make payments to the Fund. Government Departments are also registered with the Fund and at the end of 1964 this included 124 Departments.

Naturally it is a problem to enforce registration by all employers, particularly those who employ only one or two workers. To assist it in the task, the Fund has an Enforcement Unit of about 32 field staff workers. During 1964 some 17,000 visits were made to employers' premises to check compliance. The enforcement task is aided by the fact that businesses have to register with the Government in Singapore and that most employees will complain if their employer is not making contributions for them to the Provident Fund.

Membership in the Fund has registered a steady increase, partly because of a liberalization of the eligibility requirements for employees. Between the end of 1955 and 1966, membership increased from 180,000 to 442,351.[1] For the same period, the number of employers increased from 12,900 to 29,941.

Contributions and Employee Benefits

The Provident Fund Ordinance requires the employer to pay an amount to the Fund equivalent to 5 per cent of the employee's monthly salary. The maximum obligatory monthly contribution for an employer is S.$25. The employees do not have to make any contribution to the Fund on monthly salaries of S.$200 or less, but they must pay 5 per cent on the amount by which the salary exceeds S.$200. There are no salary limits, but the maximum obligatory monthly contribution from an employee is also S.$25.

1/ Chairman's Statement and Accounts of the Fund for the Year Ended 31st December 1966, Central Provident Fund Board, Singapore, 1967, p. 6.

The employee benefits consist mainly of a lump sum payment of cash at the time of withdrawal from the program. Withdrawals are permitted when a person reaches the age of 55, leaves the country, becomes physically incapacitated, dies, or for some reason ceases to be an employee.

No provisions are made for annuities. But an employee can leave the contribution with the Fund at the age of 55 and continue working until 60. The employer is then required to continue contributing to the Fund. The employees also earn interest on their contributions. During 1964-66 the rate remained at 5-1/4 per cent per annum. A member of the Fund, however, is not allowed to borrow against the amount on deposit.

Investments

Most of the Fund's assets are placed in investments, particularly government securities. The decision as to which investments will be purchased ostensibly rests with the Central Provident Fund Board which is an independent statutory body.

The Board has decided to invest mainly in Singapore securities. At the end of 1966, the Fund's investments were distributed as follows: Singapore, 96.7 per cent (S.$426 million); Overseas, 2.6 per cent (S.$12 million); and Malaysia, 0.7 per cent (S.$3 million). The ratio of Singapore securities to the total has increased in recent years.

Members balances, and hence the volume of funds available per investment, have increased substantially. From the end of 1955 to the end of 1966, total balances rose from S.$9 million to S.$416 million. In addition, the Fund's "Income and Expenditure Account" on the liabilities side of its balance sheet, which serves as a kind of reserve or capital account, was S.$32 million at the end of 1966. This item accounts for most of the difference between the total assets and member contributions.

Government Supervision and Publications

The main governmental supervision over the Fund is exercised by means of an annual audit. This is conducted by the Director of Audit, the official auditor of the Government of Singapore.

In addition, the Board is required to submit an annual report to the Parliament. This includes a statement by the Chairman and data on the accounts of the Fund.1/ Other sources of information on the Fund include the chapter on the Central Provident Fund Board which appears in the *Singapore Year Book*, 2/ and monthly data on the Fund in the Chief Statistician's *Monthly Digest of Statistics*.

1/ *Ibid*.
2/ See, for example, *Singapore Year Book: 1964*, Government Printing Office, Singapore, 1966, pp. 355-64.

Comments

The contributions received by the Provident Fund constitute a substantial source of funds for the Government. At the end of 1967 member contributions outstanding were equal to about one-sixth of total commercial bank assets. Both at the central government and municipal level these funds are making an important contribution to the development of Singapore's economic and social infrastructure. At the same time the Fund has a safe investment, providing a realistic rate of return.

The major problem the Fund has faced has been the enforcement of contributions from the very small employers. However, the Fund's costs have been relatively low and there has been no problem in paying the 5-1/4 per cent per annum interest on members' accounts.

Housing and Development Board

The Housing and Development Board is a statutory government body established to provide modern, well-built housing facilities to persons of modest incomes. The vehicle of a separate board, rather than a Ministerial Department, has apparently been adopted in order to provide those in charge with more administrative freedom in accelerating Singapore's housing program. The average number of units constructed annually during 1960-66 has been about 450 per cent higher than in 1948-59.

Establishment, Purpose and Organization

From the pre-war period through 1959 the government's housing program was administered by the Singapore Improvement Trust. But on February 1, 1960, the Housing and Development Board was established to take over the housing functions previously performed by the S.I.T. This action was authorized by legislation[1/] passed in 1959 which envisaged a substantial increase in the volume of public housing construction.

The basic objective of the Housing and Development Board is to provide modern, well-built housing and shops for the middle to lower income families. Most of the housing provided has been in the form of flats. To meet the housing needs of the country, the Board launched a highly successful Five-Year Building Program during 1961-65, and it is now on its Second Five-Year Building Program which will terminate in mid-1970.

1/ Housing and Development Ordinance (No. 11) of 1959, which was reprinted on November 2, 1966.

The organization is directed by a five-man Board, the members being appointed by the Minister for National Development. The operations of the Board are carried out by six administrative departments. These are: Urban Renewal; Resettlement; Building; Estates; Finance; and the Secretariat.1/

Types of Activities and Accomplishments

The Board's approach has been to select various sites or estates on the island, and then to develop these into virtually self-contained units. Thus a typical estate will include not only large apartment buildings, but also shops, parks and playgrounds. Construction has proceeded rapidly and the Board has been completing units ahead of schedule except in 1965.

In addition to the above activities, the Board also performs certain agency functions for the Government and other authorities. These include reclamation, redevelopment, resettlement and the management of certain buildings for the Port of Singapore Authority.

The Board not only rents property, but also has had a home ownership scheme since 1964. This is to encourage the lower middle income group to own their own home. In addition to sales for cash, the Board also extends loans for the purchase of two- and three-room flats.

The Board's accomplishments during the 1960's have been very impressive. About one-fourth of Singapore's population is now living in units constructed by the Housing and Development Board. More specifically, some 500,000 persons out of Singapore's population of approximately 2 million are now living in 90,000 units managed by the Board.2/ By 1960 it is estimated that 630,000 persons, or almost one-third of the population, will be living in 126,000 units managed by the board. During 1948-59 the Singapore Improvement Trust constructed an average of 1,705 units annually, but in 1960-66 the Housing and Development Board built an average of 9,584 annually.3/ The annual production in 1964 by the Board and private enterprise of 9.4 permanent dwellings per 1,000 of the population compares very favorably with the rates in Western Europe and the United States.

1/ For additional details, see Singapore Year Book: 1964, Government Printing Office, Singapore, 1966, p. 376 and the Annual Report, Housing and Development Board, Singapore.
2/ New York Times, June 20, 1968, p. 9.
3/ Annual Report: 1966, Housing and Development Board, Singapore, 1967, p. 9, and Singapore Year Book: 1964, op. cit. p. 377 and p. 380.

Sources of Financing and Interest Rates

The Housing and Development Board has several sources of funds. First, the Government has extended a substantial amount in loans to help finance construction and other operating costs. For the First Five-year Program, the Government approved S.$192 million in loans, of which the Board had drawn S.$149 million by the end of 1964. These loans had a maturity of 20 years and the interest rate charged the Board by the Government was 5-3/4 per cent. More recently the terms have been 60 years at 7-3/4 per cent. In addition, the Board receives rents, which in 1966 totaled S.$38 million.

The Board has generally had a deficit in its operations. During 1960-64 this amounted to S.$16.6 million, and it was covered by a government advance of S.$17 million.

For the Home Ownership Scheme mentioned earlier, the Board offers 15-year loans at an interest rate of 6-1/4 per cent with a minimum down-payment of S.$1,500.1/ Only Singapore citizens are eligible and total family income must not exceed S.$1,000 per month. By the end of 1966 about 3,500 two- and three-room flats had been sold under the Home Ownership Scheme arrangements.

Comment

It is only since 1964 that the Board has taken on aspects of a financial institution by way of its housing credits to home buyers. Hence, it is still too early and the data are still too limited to assess the relative importance and success of the Home Ownership Scheme. However, the Scheme appears to be popular and financially successful.

The bulk of the Board's operations are basically akin to a public housing authority financed by government credits. The Board's operations, in general, have been an outstanding success to date, and the program has been "...praised by experts and visitors from all over the world."2/

The real challenge of the future will probably occur when and if the Board moves into the field of individual houses for a single family. Most of the activities so far have concentrated on large apartment buildings, shops and parks.

1/ In 1966 loan facilities for the sale of the Tiong Bahru Prewar Flats were being offered on a 15-year, 7-1/2 per cent, 10 per cent down basis.
2/ Singapore Year Book: 1964, op. cit., p. 377.

Conclusions

Most of the financial institutions of Singapore are basically sound. Unlike Hong Kong, Singapore has been remarkably free of bank "runs". Capital is relatively free to move in and out of the country, and Singapore has become, to some extent, a haven for overseas capital, particularly since the Communist disturbances in Hong Kong in May of 1967.

Prospective Growth Areas and Gaps in the Financial Structure

For most of Singapore's financial institutions, the prospects for substantial future growth are quite good. The outlook for the finance companies is quite promising since this field of operations is just developing, and their rate of growth in the coming years should be quite substantial. The stock exchange is also likely to continue to attract substantial amounts of capital as an increasing number of persons become acquainted with the operation and potentialities of the exchange. As in the past, the commercial banks will also probably continue to experience a fairly rapid rate of growth.

Other promising financial areas include the cooperatives, the building societies, and the insurance industry. Growth in these areas may not be quite as rapid as for the institutions listed above, but the outlook is nevertheless quite good. The Post Office Savings Bank will probably continue to have a net loss in deposit volume.

The economy of Singapore is quite adequately served by financial institutions in certain areas, but there are some gaps in other areas. Business is generally able to obtain quickly and easily short-term commercial credits from the commercial banks, and in recent years the banks have also supplied an increasing amount of short-term working capital. However, business is still in need of more industrial finance, both medium-term and long-term. At present, virtually all term credits are limited to 10 years.

Another gap exists in terms of the underdeveloped money market. Although there is an active interbank call loan market, the country still lacks an open market in commercial bills, commercial paper, and treasury bills. Bank liquidity would be increased, and new sources of funds tapped, if these markets could be developed.

The gap in availability of both short-term and long-term credits for consumers has been reduced in recent years, but only a small proportion of the population has been able so far to avail themselves of these facilities. The growth of the finance companies and credit cooperatives has helped to expand the availability of short-term consumer credits, and the building societies and housing credit cooperatives have helped to provide a small part of the population with long-term housing credits.

Capital market development is well on its way, with the Singapore-Malaysia stock market in recent years being the most active and dynamic in Southeast Asia. The growth in market activity has been substantial, but not excessive, and the stock market should prove to be very helpful in the coming years in providing increased amounts of development capital.

The above gaps, particularly in the provision of industrial finance, have served to restrain the economic development of Singapore to some extent. This problem may be partly solved by the establishment of the new Development Bank of Singapore. Some gaps in the area of consumer finance have also slowed economic growth. Singapore could benefit from both an improvement and wider availability of consumer credit, although such an expansion should be on a sound financial basis.

With regard to the existing financial structure, it has, in general, provided an efficient allocation of resources. There are some exceptions and these will be indicated later.

Contribution of the Financial Institutions to Singapore's Economic Development

It is difficult to determine the degree to which economic growth has stimulated the establishment of certain financial institutions, and vice versa. Undoubtedly there is an interaction in both directions. Similarly it is difficult to measure quantitatively the contributions of different institutions to Singapore's economic development.

It does appear clear, however, that certain financial institutions have made important contributions. The commercial banks have been very instrumental in building up and developing both domestic and international commercial activities, including even "third country" trade. The Economic Development Board, for example, has been a major force in promoting and financing Singapore's industrialization. The building societies and housing credit cooperatives have helped promote individual purchases of homes. The finance companies and credit cooperatives have helped to expand the sale of consumer durables, particularly since the former is providing a type of credit not previously supplied by the commercial banks.

Other financial institutions have made important contributions to Singapore's economic development. The stock market has mobilized a substantial amount of capital and the Central Provident Fund has channelled a very large amount of savings to the Government, some of which have been profitably used by the Economic Development Board, and the credit cooperatives. The insurance companies have also played a not insignificant role in mobilizing some capital resources.

Role of Interest Rate Structure and Policies

Because of the unavailability of data on the rate of savings to income, it is difficult to assess the effectiveness of the interest rate structure and policies in mobilizing savings. However, because of the ease with which financial capital can be moved into and out of Singapore, it is not possible for the interest rate structure under the present circumstances to deviate by a large margin from the rates in lending world money markets. Thus the rates in Singapore reflect in part the influence of developments in international money and capital markets. Although the basic rates are determined by the Bankers Association, these rates cannot be set at levels which deviate too far from market realities because of the relative "openness" of the economy.

The interest rate policies followed have in general been reasonable, but there are some areas where adjustments might be made. These include the rate paid on Post Office savings deposits, and the dividend on shares in cooperatives. Unless a higher, more competitive rate is paid depositors, the Post Office Savings Bank may suffer the same fate as the United States postal savings system. Due to a regulation passed in the 1920's, the cooperatives are somewhat limited in paying higher dividends on shares. It would appear that greater flexibility in this policy might be approprate. Similarly, the funds shortage experienced by the building societies indicates that a restructuring of deposit and lending rates may also be appropriate.

Except for the cases already indicated, the interest rate levels in Singapore have generally been appropriate for achieving an efficient allocation of funds. Since interest rate disparities have generally been small, uneconomic or artificial allocation of funds has not been too large. In the case of private moneylenders, the maximum legal rates allowed appear to be too low, with the result that these limits have not really been effective much of the time.

Some Lessons from Singapore's Experience

On the negative side, Singapore's experience with the deposits of the Post Office Savings Bank shows clearly that an institution will decline if the interest rate paid on deposits is not competitive. It also became evident that the public was in danger of suffering as a result of the sharp expansion in the number and size of the finance companies. Fortunately Singapore took action to safeguard the public, but still to permit a potentially useful institution to operate, by passing appropriate legislation.

Singapore's experience with promoting increased industrial financing shows that substantial results can be achieved, but that it takes time and effort to encourage a change in the attitudes and behavior patterns of the commercial banks. In this regard, the Economic Development Board has played a crucial role.

The dynamic growth of the Stock Exchange also provides some lessons for other countries with less developed financial institutions. Undoubtedly one of the important factors stimulating a rising volume of stock purchases has been the mandatory disclosure of financial information required by the Exchange from newly listed companies. This information, which is passed on to the public by the Exchange, plus daily stock quotations, and the publication of monthly financial data in the _Gazette_, have all helped to encourage an expansion in stock trading and investment.

The successful operation of the Central Provident Fund also shows how a well-constructed and carefully administered fund can serve a dual purpose. The Fund not only helps provide a form of economic security for retired workers, but serves as a substantial source of long-term development capital for the country. A _sine qua non_ for the successful operations of such a fund, however, is the avoidance of serious inflation.

Lastly, there is Singapore's experience with the use of a currency board arrangement rather than a central bank. As indicated earlier, this subject has been controversial. However, the experience to date indicates that Singapore has not suffered in any major degree from not having a central bank, and it has benefited from the confidence in the stability of the currency that is associated with the currency board arrangement. As time passes, it appears likely that the choice made by the authorities to use the currency board arrangement will have been a very sound decision.

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