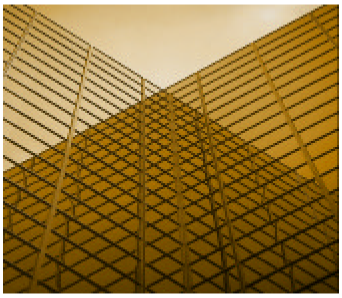
MAS

Monetary Authority of Singapore



Financial Stability Review

December 2005

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FOREWORD

The financial system plays a critical role in the economy. It acts as an intermediary between savers and borrowers, allocates financial resources efficiently and thereby contributes to economic growth. A sound and stable financial system is therefore fundamental to the well-functioning of the Singapore economy, particularly its ability to mobilise savings for investment and to redistribute risks across the economy.

In this respect, the Monetary Authority of Singapore (MAS) conducts a regular assessment of Singapore's financial system by identifying potential sources of risks and vulnerabilities, and assessing the ability of the financial system to withstand these potential shocks. The results of the assessment are contained in the *Financial Stability Review* (FSR), which is published on a semi-annual basis. The FSR aims to contribute to a greater understanding and exchange of views among market participants, analysts and the public on issues affecting Singapore's financial system.

Section I of the FSR provides an assessment of the macro environment that encompasses macroeconomic conditions and financial market developments in the global and the Singapore context. Against this backdrop, Section II analyses the non-financial sector, which includes both the corporate and household sectors while Section III focuses on the banking sector given its dominant role in Singapore's financial sector as well as the insurance sector. Finally, Section IV highlights the major developments in the financial infrastructure underpinning a stable and progressive financial system.

The FSR is coordinated by the Macroeconomic Surveillance Department and incorporates contributions from the following departments: Banking Supervision Department, Complex Institutions Supervision Department, Economic Policy Department, Insurance Supervision Department, Prudential Policy Department, Reserve and Monetary Management Department, Securities and Futures Supervision Department and Specialist Risk Supervision Department. The FSR reflects the views of the staff of the Macroeconomic Surveillance Department and the contributing departments.

The next issue of the FSR will be released in June 2006.

Macroeconomic Surveillance Department
Monetary Authority of Singapore
1 December 2005

OVERVIEW

Since the June 2005 *Financial Stability Review* (FSR), global financial markets have remained resilient and have reacted well to a series of shocks, including the Katrina hurricane disaster in the US, terrorist bombings in London, and changes in the pegged exchange rate regimes in China and Malaysia. While major equity markets were largely weighed down between August and October 2005 on concerns of high energy prices and sharper-than-expected interest rate hikes, they rebounded in November 2005 as oil prices fell. The long-term US Treasury yields remained low despite further rate hikes by the US Federal Reserve (Fed) while the broader market for corporate credit default swap was fairly unaffected by continued problems in the US automobile industry.

The world economy has continued to expand amid relatively benign global financial market conditions. Notwithstanding high oil prices and tighter monetary conditions, real GDP growth in the US increased further to 4.3% quarter-on-quarter seasonally adjusted annualised rate (QOQ SAAR) in Q3 2005 from 3.3% in Q2 and 3.8% in Q1. Robust US GDP growth was driven by continued productivity growth and private consumption. Growth of the Japanese economy slowed to a more sustainable 1.7% QOQ SAAR in Q3 2005, from 3.3% in Q2 and 6.3% in Q1, while growth in the Euro-zone economies rebounded from a sluggish first half of the year to reach 2.6% QOQ SAAR in Q3. In Japan, growth was supported by domestic consumption and private investment, and the recent recovery in global electronics industry. In the Euro-zone, growth was boosted by increased industrial production since September this year.

In line with continued expansion of the G3 economies and benefiting from resilient global demand for Asian exports, East Asian economies also experienced firm growth. China maintained its growth momentum to grow by 9.4% year-on-year (YOY) in Q3 2005, while GDP growth in Korea, Hong Kong and Taiwan ranged between 4.4% and 8.2% YOY in the same quarter. The Southeast Asian economies of Indonesia, Malaysia, the Philippines and Thailand recorded growth ranging between 4.1% to 5.8% YOY in Q2 2005. Economic performance was mixed in the third quarter, with Indonesia and the Philippines growing at a slower pace of 5.3% and 4.1% YOY respectively, while growth in Malaysia picked up to 5.3% YOY. On account of inflationary concerns stemming from a sustained increase in oil prices, and in line with rising US interest rates, central banks and monetary authorities across East Asia have continued to tighten monetary policies in H2 2005.

In East Asia, the balance sheets of both the non-financial and banking sectors continued to strengthen. In the first half of 2005, most banks in East Asia continued to see improvements in their profitability and asset quality. The profitability of listed non-financial firms in these economies remained strong while leverage increased marginally. Although household credit in several of the East Asian economies continued to grow, household indebtedness has remained broadly under control with authorities in some countries introducing additional measures to curb indebtedness and stem property price inflation.

Singapore's economic growth rose further to 7.0% YOY in Q3 2005 from 5.4% in Q2 and 2.7% in Q1, with broad-based expansion across the services and manufacturing sectors. With leading indicators pointing to continued strength in the economy, the growth forecast for 2005 was revised up to around 5%, from the earlier forecast of 3.5% to 4.5%. GDP growth for 2006 is projected to come in at around 3-5% while CPI inflation is expected to rise moderately to 0.5-1.5% next year on the back of oil-related price pressures. With the Singapore economy likely to keep close to its potential output trajectory this year and in 2006, the Monetary Authority of Singapore (MAS) maintained its policy of a modest and gradual appreciation of the S$NEER in its latest Monetary Policy Statement on 11 October 2005.

Against this backdrop, the Singapore banking sector has remained sound, supported by healthy corporate and household sectors. Singapore's corporate sector, which accounts for an estimated two-fifths of non-bank loan exposure of banks in Singapore, continued to perform well in Q2 2005, with firms reporting sustained profits and improved liquidity positions. Similarly, Singapore household balance sheet continued to strengthen, boosted by gains in financial assets such as stocks, unit trusts and investment-linked insurance, while liabilities were estimated to have remained largely unchanged between Q4 2004 and Q2 2005.

Commercial bank lending in Singapore accelerated in Q3 2005, after rising by a slower pace in the previous two quarters. The renewed strength in credit demand was due to strong activity in non-bank lending in the Asian Dollar Market (ADM) and overall interbank lending. In contrast, domestic non-bank loans saw slower growth, as lending to households grew at a slower pace while lending to firms remained weak. Banks have sufficient reserves of liquid assets to cover their short-term cash outflows in SGD, suggesting low liquidity risk in the banking system. All three local banking groups registered growth in profits, declining non-performing loan (NPL) ratios, and capital adequacy ratios (CARs) that were above the regulatory requirement.

The performance of the insurance sector has continued to improve since the last FSR. On a weighted premiums basis, new life business premiums grew by 15.6% to SGD1 bn for the first nine months of this year while total operating profitability of Singapore general insurers also continued to improve. While the losses due to the recent series of catastrophes in the US, including Hurricane Katrina, continue to unfold, general insurers and reinsurers based in Singapore have not been affected directly given their limited exposure to US risks.

Notwithstanding the overall positive assessment of Singapore's financial system, there remain several downside risks. Firstly, the threat of higher oil prices remains, as strong global demand for oil will continue to run up against supply constraints. If oil prices were to rise further, the pass-through to inflation could be more severe, with inflation accelerating much more than seen currently. This could in turn lead to tighter-than-expected monetary conditions and slower global growth. Secondly, the continued build up of large global imbalances has increased potential vulnerabilities in financial markets, with heightened risks of a shift by investors away from USD-denominated assets and a corresponding disorderly adjustment of the USD. This could result in a reorientation of global capital flows with significant changes in key asset prices and heightened risk aversion, resulting in weaker US and global economic growth. Finally, concern has been growing that the Avian influenza virus might mutate into a strain capable of human-to-human transmission. In the event of an Avian influenza pandemic, severe economic and financial disruptions could ensue.

Based on a scenario of rapidly rising interest rate environment leading to sharp contraction in economic growth, a stress test of market risk was conducted on six major banks, including the three local banking groups. The stress test results showed that the banks would be resilient to the shocks assumed under the scenario. The estimated potential losses on the banks’ market portfolios would be about half of their average pre-tax profits in the past five years.

I MACRO ENVIRONMENT

1.1 Financial Market Developments

The June 2005 *Financial Stability Review* (FSR) highlighted a number of risks in the global financial market conjuncture. These included a disorderly adjustment of the USD, faster-than-expected interest rate hikes on the back of sustained high oil prices and higher inflation. It was also noted that conditions in the global financial markets appeared more uncertain than in December 2004. Since then, the US current account deficit has widened further to 6% of GDP. The continued build up of global imbalances has increased potential vulnerabilities in financial markets. Energy prices have remained high while inflation has trended upwards, and interest rates have increased further. While financial markets have on the whole been orderly and resilient in the face of recent disturbances such as the Katrina hurricane disaster and terrorist bombings in London, the risks to the global financial stability conjuncture appear to have heightened in the medium- and long-term as inflation expectations rise and global imbalances continue to widen.

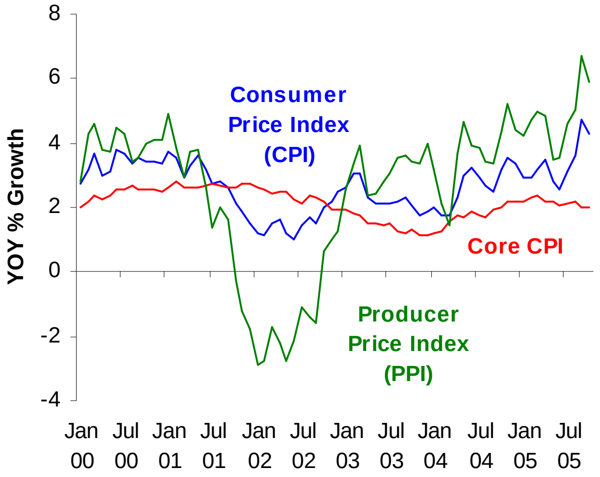
Global Financial Markets

Inflation has trended upwards on the back of sustained high energy prices

Since the last FSR, the risk of higher inflation going into 2006 has increased on the back of sustained high energy prices. In the period between June and October 2005, average[1] crude oil prices rose to a high of USD66/barrel on 1 September 2005 and are currently trading at around USD54/barrel. Overall consumer prices rose by a seasonally adjusted annualised rate (SAAR) of 4.9% during the first ten months of 2005 compared to 3.3% for the whole of last year (Chart 1.1). Oil prices are likely to remain high as global demand is expected to continue to run up against supply constraints. If oil prices were to rise further, the impact on inflation could be more severe, with inflation accelerating much more than seen currently. The winter season in the northern hemisphere could also exert greater stress on the natural gas market, leaving prices vulnerable to spikes until the early part of next year. Against this backdrop, the US Federal Reserve (Fed) is expected to continue raising interest rates by a quarter of a percentage point in its last FOMC meeting this December (Chart 1.2). However, the risk of tighter-than-expected monetary conditions remains plausible should inflation continue to surprise on the upside.

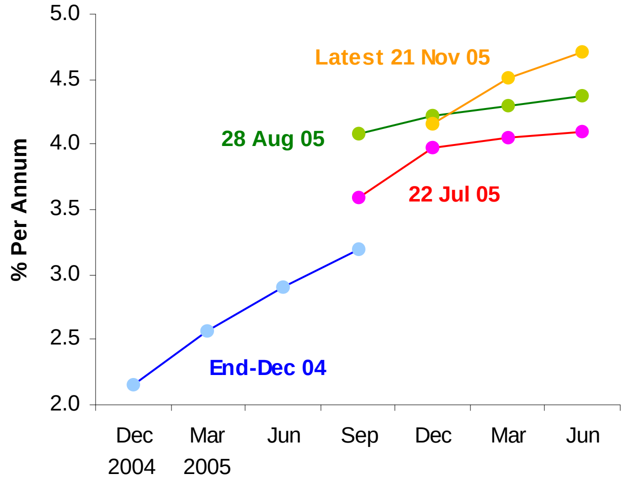
[1] Average of WTI, Brent and Dubai crude

Chart 1.1
US Inflation



Source: CEIC

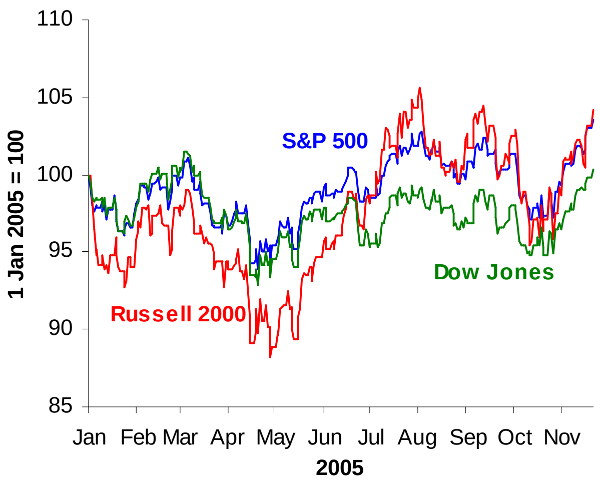
Chart 1.2
US Fed Fund Futures



Source: Bloomberg

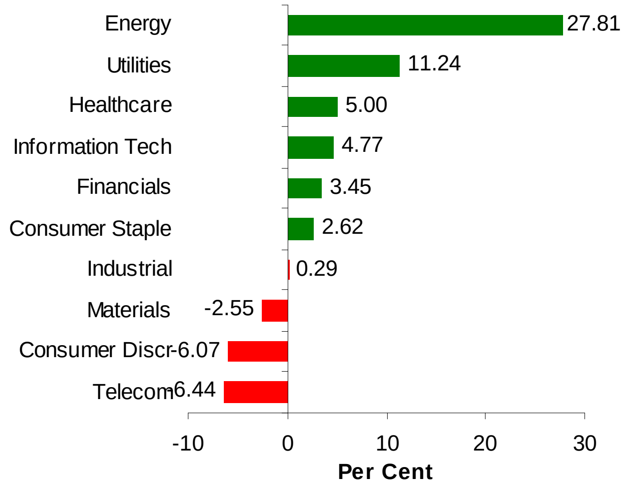
While US equity markets were upbeat in July 2005 on the back of positive economic data and healthy Q2 earnings results, they were largely weighed down between August and October 2005 by concerns of high energy prices and sharper-than-expected interest rate rises depressing corporate profits (Chart 1.3). Equity markets rebounded in November 2005, as falling oil prices overshadowed the spectre of higher interest rates. However, the underlying strength in US equity prices appears to be narrowly based and skewed towards energy sector stocks (Chart 1.4).

Chart 1.3
US Equities



Source: Bloomberg

Chart 1.4
MSCI US Year-to-Date Industry Performance
(1 Jan – 21 Nov 05)



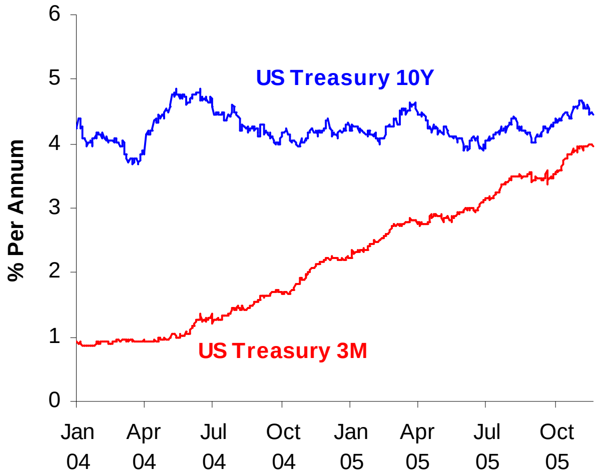
Source: Bloomberg

Credit spreads have remained low, reflecting continuation of the search for yields

Despite twelve consecutive rate hikes by the Fed since June 2004, the 10-year US Treasury yield has not risen in line with the increase in short-term interest rates (Chart 1.5). The narrowing gap between short- and long-term rates has raised concerns of a yield curve inversion, which historically had preceded economic recessions in the US. While long-term rates rose in July amid signs of rising momentum in the US economy as well as the unwinding of flight-to-safety trades taken after the terrorists' bomb attacks in London, and again in October and November on the back of inflationary concerns, they have remained around 4.3%, on average.

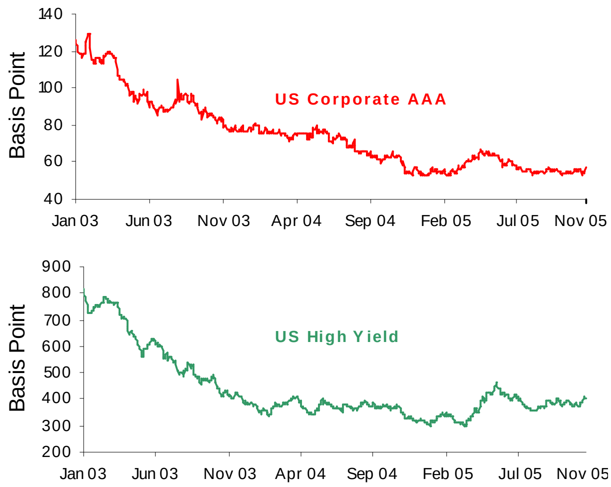
The sustained fall in term risk premia has been attributed to both cyclical and structural factors. Well anchored inflationary expectations, an excess of global savings and a portfolio shift toward longer term bonds by pension funds and life insurance companies as a result of changes in regulatory requirements could have capped the increase in yields.

Chart 1.5
US Treasury Yields



Source: Bloomberg

Chart 1.6
Corporate Credit Spreads

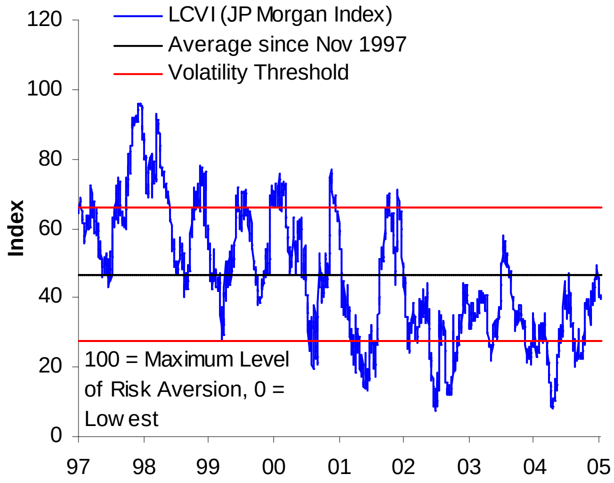


Source: Thomson Financial

Reflecting excess liquidity in the market, corporate bond spreads have remained tight (Chart 1.6). The improved balance sheets of US corporates and strong demand for corporate credits have remained broadly supportive of corporate bond issuance. Although the credit environment remained favourable, investors may have become more discerning of credit quality. The decline in investor's risk appetite (Chart 1.7) on the back of growing concern over inflation pressures and further monetary policy tightening was reflected in the increasing distinction between AAA credits and high yield credits. While AAA credit spreads at 55 bps are close to their lowest levels in February 2005, high yield credit spreads have increased to 402 bps, 106 bps higher than their lowest levels in March 2005.

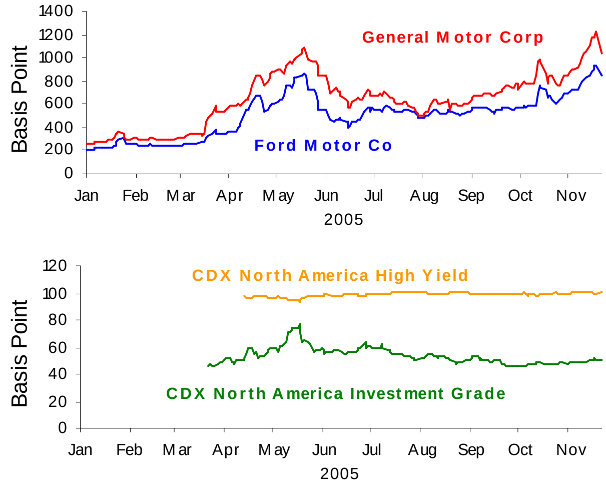
While credit default swap premiums spiked in May 2005 due to the downgrades of Ford and General Motors (GM), the broader market has remained fairly unaffected by continued problems in the US automobile industry. Worries about the impact of Delphi Corp's bankruptcy filing on GM had led Standard & Poor's to cut GM's debt rating further by one level from BB to BB-, causing credit default swap premiums on GM to spike up in mid-October 2005. The automaker was also subpoenaed on 26 October 2005 by the US Securities and Exchange Commission as part of a probe into its accounting practices (Chart 1.8).

Chart 1.7
Global Risk Aversion



Source: JP Morgan

Chart 1.8
Credit Default Swap Premiums*



Source: Bloomberg
*Premium on Value of Portfolio

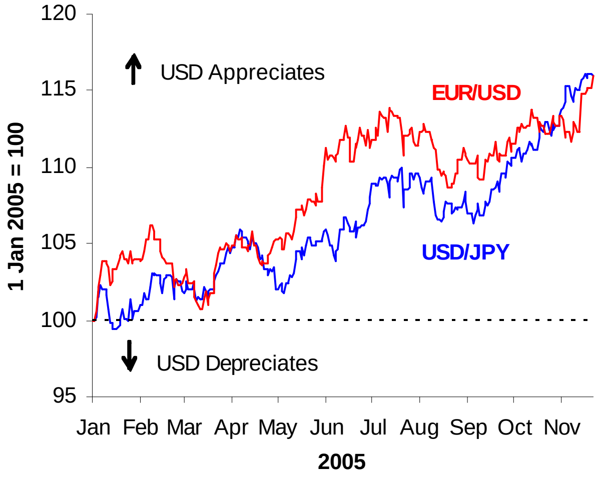
Despite the strong USD, a disorderly adjustment of global imbalances remains a significant potential medium-term risk

Over the past six months, the USD has appreciated against the Euro and the Japanese yen on the back of increasing interest rate differentials (Chart 1.9). Foreign investors' appetite for USD assets has also remained strong (Chart 1.10). Net foreign portfolio inflows amounted to an annualised USD1016 bn, even as the annualised official net foreign purchases of USD assets declined to 14% of US current account deficit[2] in 2005 from 35% in 2004 (Chart 1.11).

The September TICS[3] showed continued reliance on flows from Europe possibly as a result of indirect flows from the petrodollars of OPEC countries via London (Chart 1.12). This shift in composition of flows on the back of the rising current account surpluses of OPEC countries has made the origin of inflows much harder to track, as most petrodollars in the majority of OPEC countries are not managed as official reserves but by petroleum stabilisation funds or investment authorities.

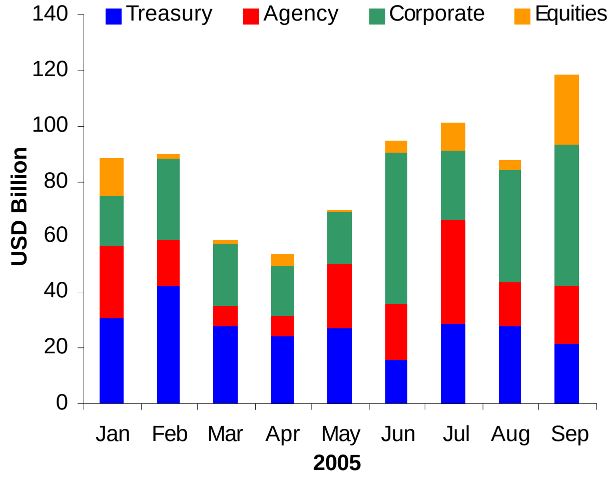
[2] Based on a current account deficit of USD794 bn according to the November 2005 consensus forecast.
[3] Treasury Department's Report on Investment Inflows to the US.

Chart 1.9
USD against Euro & JPY



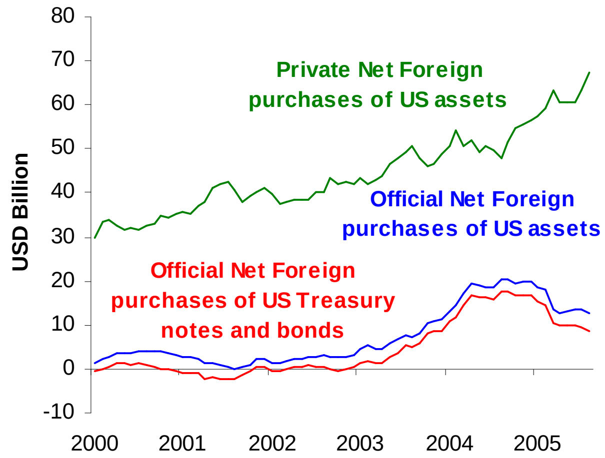
Source: Bloomberg

Chart 1.10
Net Foreign Purchase of USD Assets



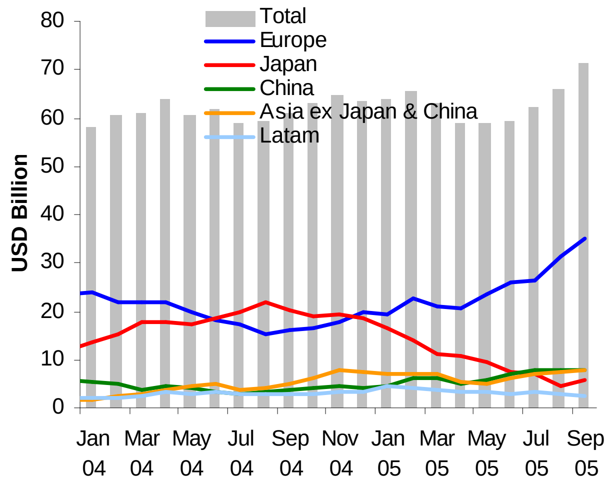
Source: US Department of Treasury

Chart 1.11
Official and Private Net Foreign Purchases of USD Assets – 12M Moving Average



Source: US Department of Treasury

Chart 1.12
Net Foreign Purchase of USD Assets – 12M Moving Average



Source: US Department of Treasury

Going forward, factors that would continue to support the USD include rising interest rate differentials and possible repatriation of profits by US firms previously held overseas to take advantage of the preferential tax rate of 5.25% (compared to the usual 35%) for repatriations in 2005 under the American Jobs Creation Act. However, a reversal in capital inflows and a corresponding disorderly adjustment in the USD cannot be completely ruled out in the medium- to long-term should imbalances continue to deteriorate.

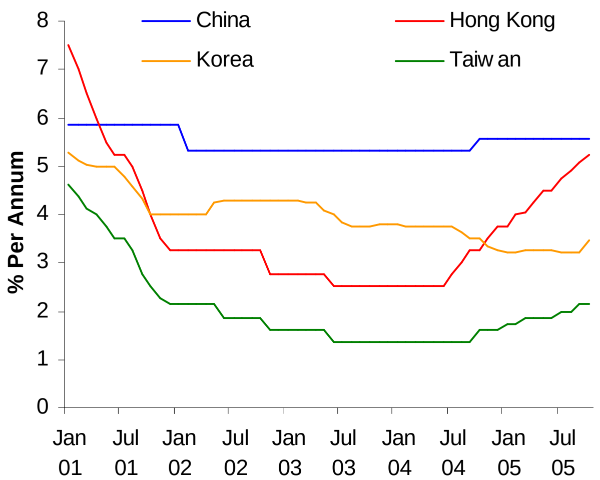
East Asian Financial Markets

East Asian monetary policies continued to tighten on rising inflationary concerns

Since June 2005, monetary policies in Asia have continued to tighten on the back of rising inflationary concerns. The People's Bank of China (PBOC) raised its policy rate by 25 bps to 2.13% in mid-September 2005 while the Bank of Korea (BOK) also raised the overnight call rate by 25 bps in early-October 2005 to 3.5%. Likewise, the Hong Kong Monetary Authority increased its base rate for overnight lending by 25 bps to 5.5% in November 2005, the highest level in more than five years, while Taiwan's Monetary Policy Board also raised interest rates by 12.5 bps in September 2005 (Chart 1.13a).

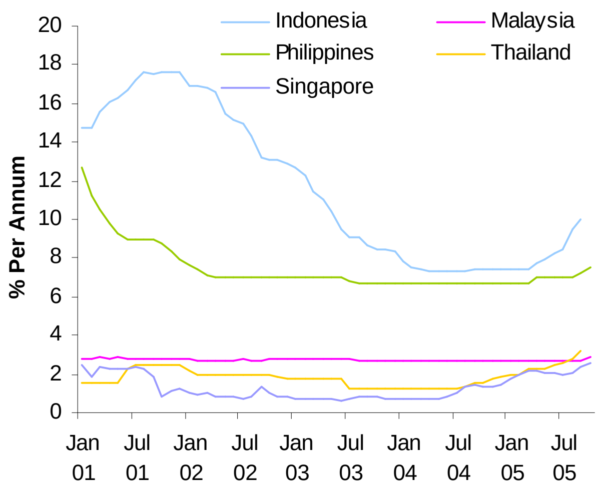
Monetary authorities across the Southeast Asian economies of Thailand, Philippines, Indonesia and Malaysia have also raised policy rates. In Thailand, the 14-day repurchase rate has risen to 3.75% per annum as of 19 October 2005 (Chart 1.13b). In the latest move, the Bank of Thailand (BOT) Monetary Policy Committee noted that inflation had accelerated and was likely to increase further while core inflation was likely to remain high with the possibility of accelerating beyond the monetary policy target in 2006. In the Philippines, the Bangko Sentral ng Pilipinas (BSP) Monetary Board increased the policy interest rate by another 25 bps to 7.50% for overnight borrowing and 9.75% for the overnight lending on 20 October 2005, marking the second increase since April 2005. The Monetary Board noted that latest data indicated a possible breach of its inflation target in 2007 due to knock-on effects from "supply-side pressures" such as rising oil prices. In Indonesia, Bank Indonesia (BI) increased its target rate for one-month paper (SBI) by 125 bps to 12.25% on 1 November 2005 following the surge in inflation for October 2005 to 17.9% due to the hike in domestic fuel prices earlier in the month. On 30 November 2005, Bank Negara Malaysia (BNM) raised its overnight policy rate by 30 bps to 3.0%, as the underlying economic momentum remained firm and inflation pressures were on the rise. The interest rate hike marked the first monetary policy tightening by BNM since 1998.

Chart 1.13a
Short-Term Interest Rates in Northeast Asia



Source: Bloomberg, CEIC

Chart 1.13b
Short-Term Interest Rates in Southeast Asia



Source: Bloomberg, MAS

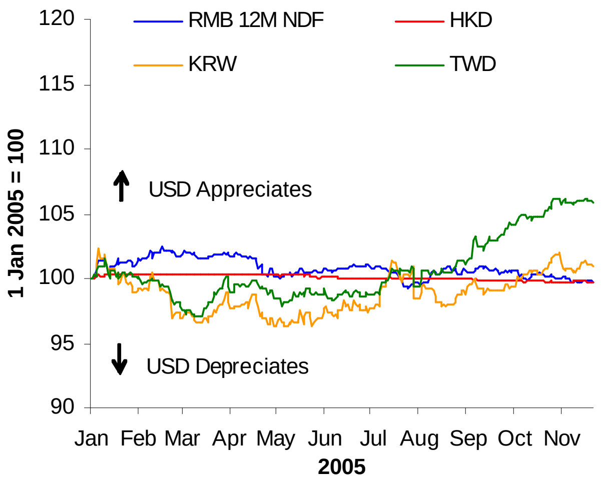
Looking ahead, the risk of further monetary policy tightening across the East Asian region remains in light of rising inflationary fears stemming from a sustained increase in oil prices and the likelihood of further Fed tightening into next year.

East Asian currencies have generally given up some of the earlier gains against the USD, following concerns over higher US interest rates and oil prices

During the period in review, the Korean won and Taiwan dollar have weakened vis-à-vis the greenback on the back of net foreign equity outflows and partly reflecting the stronger USD vis-à-vis major currencies. Following the initial 2.1% adjustment[4], the Renminbi (RMB) has further strengthened to 8.08 as at late November. The adjustment in the RMB had fuelled market expectations for further revaluation, with NDF markets appearing to suggest an additional 4-5% appreciation over the next 12 months (Chart 1.14a).

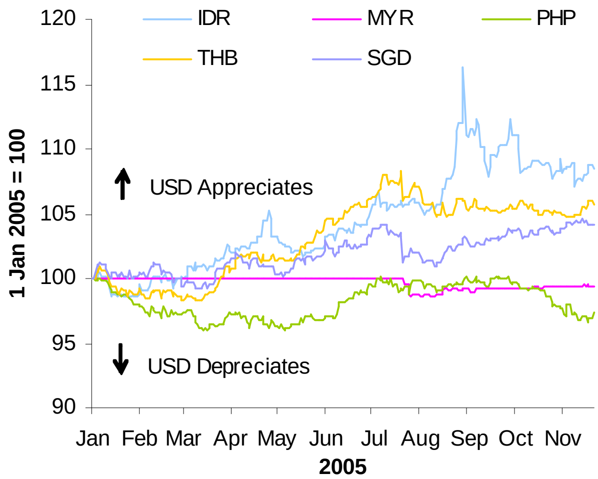
The Indonesian rupiah had weakened sharply against the USD in August 2005 as strong demand for foreign exchange on account of imports of raw materials, debt repayments, and higher oil prices weighed on the currency. The decline in the rupiah had raised concerns that Indonesian firms may be pressured to meet escalating foreign loan repayments, which would in turn lead to further weakening in the rupiah as such firms bring forward their repayment schedules. Nevertheless, recent moves by the Indonesian government to raise policy interest rates and hike fuel prices were well received by the financial markets, leading to the reversal of much of the decline in the rupiah and stock market that occurred in August. The Thai baht began to stabilise following the revaluation of the RMB in July 2005 as Thailand and China share many common export destinations and the revaluation was seen to benefit the competitiveness of Thai exports (Chart 1.14b).

Chart 1.14a
Northeast Asian Currencies



Source: Bloomberg

Chart 1.14b
Southeast Asian Currencies



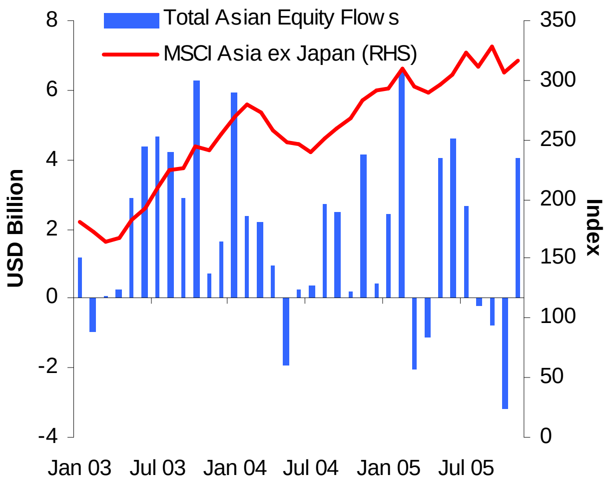
Source: Bloomberg

[4] On 21 July 2005, the PBOC removed the RMB-dollar peg, and revalued the RMB by 2.1 % to 8.11 per USD, which would henceforth be managed around a daily +/- 0.3% band with reference to a basket. On the same day, Bank Negara Malaysia also dropped the ringgit-dollar peg and adopted a managed float exchange rate system.

East Asian stock markets have generally seen a correction from early-August 2005 on high oil prices and corporate earnings concerns

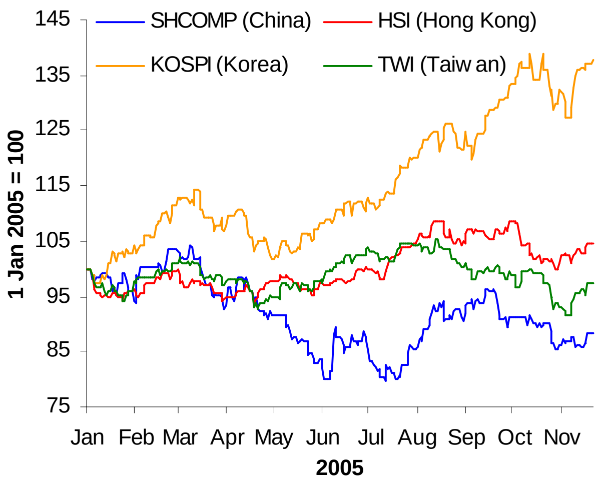
Up until early-August 2005, East Asian equities have been supported by strong foreign equity inflows in anticipation of a further RMB revaluation and renewed optimism for growth prospects in East Asia despite sustained high oil prices. Equity markets in East Asia generally experienced a net foreign outflow[5] in the period August to October 2005, weighed down by concerns over the impact of higher oil prices on economic growth and inflation (Charts 1.15 & 1.16). While regional bourses have recovered since early November on the back of falling oil prices, the prospect of slower growth due to tighter monetary conditions may further dampen equity markets in the region.

Chart 1.15
Net Foreign Purchases of East Asian* Equities



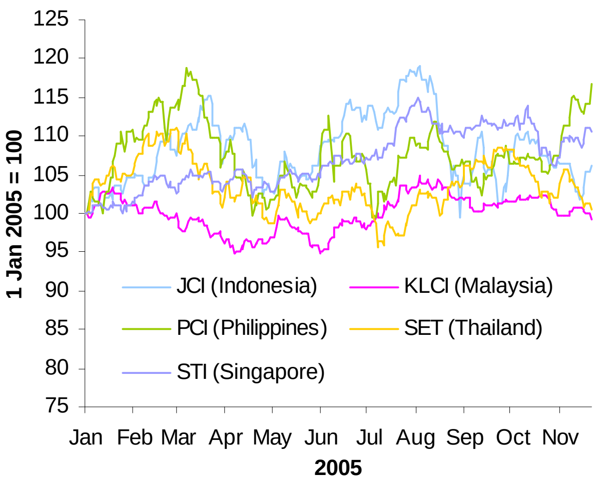
Source: Bloomberg
* Taiwan, Korea, Thailand, the Philippines and Indonesia

Chart 1.16a
Northeast Asian Equities



Source: Bloomberg

Chart 1.16b
Southeast Asian Equities



Source: Bloomberg

[5] Net foreign purchase of equities in Thailand, South Korea, Taiwan, the Philippines and Indonesia reversed from USD11.3 bn for the period May-July 2005 to –USD3.2 bn for the period August-October 2005. The net purchases have turned to a positive USD2.6 bn in November mainly due to inflows to Taiwan.

1.2 Macroeconomic Conditions

Since the June 2005 FSR, the global economy has remained resilient against the backdrop of high oil prices and tighter monetary conditions. Among the G3 economies, the US sustained firm growth on the back of robust domestic consumption and corporate investment, while growth in the Euro-zone rebounded in Q3 2005. In Japan, growth has moderated from exceptionally robust levels in the first quarter. In East Asia, high oil prices had exerted a somewhat more negative impact on the Southeast Asian economies than the Northeast Asian economies, especially as fuel subsidies were scaled back and central banks tightened monetary policies in response to rising inflationary pressures. Southeast Asian export growth had eased in the past few months and economic growth forecasts for 2005 have been lowered. Northeast Asian economies generally recorded stronger growth in the second quarter of this year. In the third quarter, China sustained its rapid growth, while Korea's expansion increased further, on account of improving exports and private consumption. Looking ahead, the ongoing recovery in the global electronics industry is expected to provide some support for East Asian exports. Nonetheless, sustained high oil prices, tighter monetary conditions and low levels of investment in several Asian economies could weigh on East Asian growth in the quarters ahead.

Global Economy

Global economy remained broadly resilient, with leading indicators pointing to firmer conditions in the G3 economies

Despite high oil prices, tighter monetary conditions, and the adverse impact of the Katrina hurricane disaster, real GDP growth in the US rose from 3.3% quarter-on-quarter (QOQ) SAAR in Q2 2005 to 4.3% in Q3 2005 (Table 1.1). Continued productivity growth and strong household spending on durable goods had supported private consumption, which contributed to more than 70% of real GDP growth in the last two quarters. In Japan, economic growth moderated to a more sustainable 1.7% QOQ SAAR in Q3 2005, from 3.3% in Q2 and 6.3% in Q1. Nonetheless, business confidence has remained buoyant and the economy has shown increasing signs of a recovery from its post-bubble slump of the early 1990s. Domestic demand was the main contributor to growth, while improving export performance on the back of the recovery in global electronics industry also helped to support the expansion in recent months. In the Euro-zone, high oil prices weighed on the economy in the first half of the year, with growth edging down from 1.5% QOQ SAAR in Q1 2005 to 1.2% in Q2. Nonetheless, economic growth rebounded in Q3, reaching 2.6% QOQ SAAR. Industrial production in the Euro-zone gathered pace in September, while the German economy expanded on the back of strong investment and export growth in Q3. In October 2005, German business confidence also surged to a five-year high.

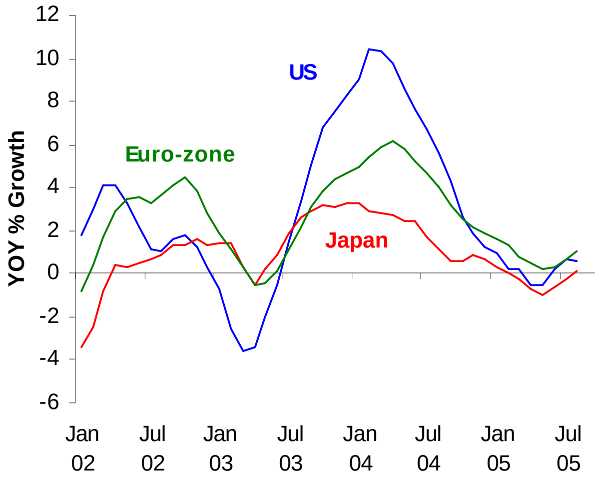
Core inflation in the G3 remained under control due to well anchored inflation expectations. While inflationary pressures have prompted continued monetary policy tightening in the US, the tentative recovery in the Euro-zone and negative inflation in Japan have led to unchanged monetary policy stances in these economies. The turnaround in the OECD leading indicators points to firmer growth in the G3 economies in the next three to six months (Chart 1.17).

Table 1.1
Real GDP Growth (YOY % Change)

	2003	2004	2005f	2006f	1Q05	2Q05	3Q05
Industrialised Countries							
US	2.7	4.2	3.6	3.3	3.6	3.6	3.7
Japan	1.4	2.7	2.2	1.9	1.3	2.2	3.0
Euro-zone	0.7	1.8	1.3	1.7	1.3	1.1	1.5
Southeast Asia							
Malaysia	5.4	7.1	5.0	5.3	6.2	4.4	5.3
Indonesia	4.9	5.1	5.2	5.2	6.1	5.8	5.3
Philippines	4.5	6.0	4.6	4.7	4.6	5.2	4.1
Singapore	1.4	8.4	4.6	4.8	2.7	5.4	7.0
Thailand	6.9	6.1	4.2	4.7	3.3	4.4	n.a.
Northeast Asia							
China	9.5	9.5	9.4	8.4	9.4	9.5	9.4
Hong Kong	3.1	8.2	5.8	4.5	6.2	7.3	8.2
Korea	3.1	4.6	3.8	4.6	2.7	3.3	4.4
Taiwan	3.4	6.1	3.6	3.9	2.3	3.0	4.4

Source: CEIC, Thomson Financial and Consensus Forecast November 2005

Chart 1.17
OECD Leading Indicators



Source: Thomson Financial

During the period in review, the East Asian economies recorded mixed growth performance, with variations across Southeast Asia and broad improvements in Northeast Asia (Table 1.1). In Southeast Asia, growth was weighed down by rising fuel prices as governments cut back on fuel subsidies, and tightened monetary conditions. Nonetheless, the recent turnaround in the IT sector led to better export performance in Q3 2005.

Among the Southeast Asian economies, economic growth picked up in Malaysia and slowed in Indonesia and the Philippines in Q3 2005, while available indicators point to steadier growth in Thailand in the same quarter. In Malaysia, stronger economic growth was driven by a recovery in household spending and fixed investment. In Indonesia, the slowdown was attributed to a deceleration in export and investment growth. Economic growth in the Philippines was weaker due to a combination of sluggish farm output, high oil prices and poor consumer and business sentiment as political uncertainty surrounding the legitimacy of President Arroyo's election surfaced in the third quarter. In Thailand, the expansion in Q2 2005 was supported by resilient consumer spending, and firm capital investment. Nonetheless, the sharp decline in net exports, due to high imported fuel prices, was a drag on the economy.

Inflation in many Southeast Asian countries has risen significantly as oil prices continued to remain high while regional governments scaled back fuel subsidies and producers passed on rising costs to consumers (Table 1.2). Since Q2 2005, headline inflation has risen for Malaysia, Indonesia and Thailand and several central banks have tightened monetary policy.

Table 1.2
Consumer Price Inflation (YOY % Change)

	2004	1Q05	2Q05	3Q05	Jul 05	Aug 05	Sep 05	Oct 05
Industrialised Countries								
US	2.7	3.0	2.9	3.8	3.2	3.6	4.7	4.3
Japan	0.0	-0.2	-0.1	-0.3	-0.3	-0.3	-0.3	-0.7
Euro-zone	2.1	2.0	2.0	2.3	2.2	2.2	2.6	2.5
Southeast Asia								
Malaysia	1.4	2.4	3.0	3.4	3.0	3.7	3.4	3.3
Indonesia	6.1	7.8	7.6	8.4	7.8	8.3	9.1	17.9
Philippines	6.0	8.5	8.2	7.1	7.1	7.2	7.0	7.0
Singapore	1.7	0.3	0.1	0.5	0.1	0.7	0.6	1.1
Thailand	2.8	2.8	3.7	5.6	5.3	5.6	6.0	6.2
Northeast Asia								
China	3.9	2.8	1.7	1.3	1.8	1.3	0.9	1.2
Hong Kong	-0.4	0.4	0.8	1.4	1.3	1.3	1.6	1.8
Korea	3.6	3.1	3.0	2.4	2.5	2.0	2.7	2.5
Taiwan	1.6	1.6	2.1	3.0	2.4	3.6	3.2	2.6

Source: CEIC and Thomson Financial

In Northeast Asia, private consumption and industrial production remained resilient against rising fuel prices while exports are set to benefit further from the IT cycle's turnaround. China's economy sustained its rapid expansion of 9.4% year-on-year (YOY) in Q3 2005, driven by strong exports and fixed investments. GDP growth in Korea continued to increase on the back of expanding domestic consumption and exports, reaching a stronger growth of 4.4% YOY in Q3 2005. Notwithstanding high oil prices, inflation remained tame across Northeast Asia relative to Southeast Asia (Table 1.2). In China, inflation remained muted reflecting to some extent government controls on oil prices and the excess supply of consumer products. In Korea, the sharp appreciation of the Korean won in late 2004 and early 2005 has helped to contain consumer price inflation. Nonetheless, firmer economic growth and greater inflationary expectations had led the BOK to hike its benchmark short-term call rate, by 25 bps to 3.5%, for the first time in three years on 11 October 2005. In Hong Kong, inflation has risen to 1.8% in October, driven largely by higher rents. Inflation in Taiwan abated in October 2005 compared to Q3 2005, as oil and food price inflation moderated slightly.

1.3 East Asian Financial System

Firm profit growth and favourable liquidity positions underpinned financial health of East Asian corporate sector

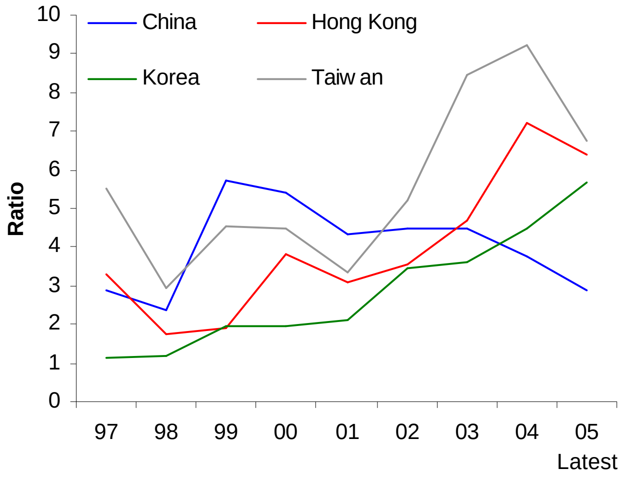
During the first half of 2005, the financial leverage of publicly listed firms in Asia increased (Table 1.3). Nonetheless, growth in firms' profitability enabled them to maintain the ability to meet their interest expenses, as indicated by their interest coverage ratios of more than one (Chart 1.18). Firms' liquidity positions also remained favourable, with current ratios above one (Chart 1.19).

Table 1.3
Non-Financial Corporate Ratios (Median)

	2001	2002	2003	2004	05 Latest
Debt-to-Equity Ratio (%)					
Malaysia	29.4	27.6	29.4	30.4	32.1
Indonesia	23.7	31.5	42.8	39.5	43.9
Philippines	22.0	19.7	15.5	17.0	18.7
Singapore	32.9	30.3	29.2	29.4	31.6
Thailand	41.8	37.7	42.3	35.8	40.9
China	44.7	49.1	55.0	56.9	59.8
Hong Kong	20.8	19.3	21.6	20.3	21.4
Korea	56.0	54.5	45.8	40.9	n.a.
Taiwan	38.5	38.0	40.7	45.6	39.2
Return on Assets (%)					
Malaysia	3.2	3.6	3.9	4.4	4.1
Indonesia	5.2	6.0	4.5	4.2	5.1
Philippines	0.8	0.3	1.3	3.7	n.a.
Singapore	2.1	2.6	4.1	4.8	4.7
Thailand	6.3	6.7	8.2	8.8	7.7
China	5.0	4.1	4.6	4.1	3.1*
Hong Kong	3.4	2.6	3.4	5.0	4.9
Korea	4.3	5.3	4.7	5.0	n.a.
Taiwan	2.8	4.7	5.6	5.9	4.0

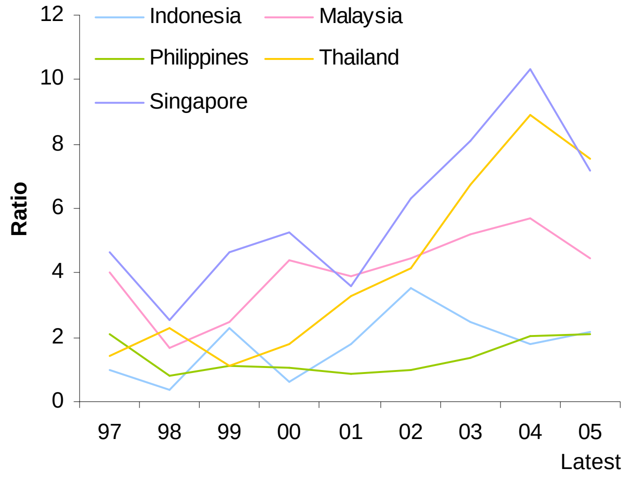
Source: Thomson Financial
Note: Annual figures are as at year-end. Latest 05 figures are from Q2 2005, unless specified
* From Q3 2005

Chart 1.18a
Interest Coverage Ratio – Northeast Asia (Median)



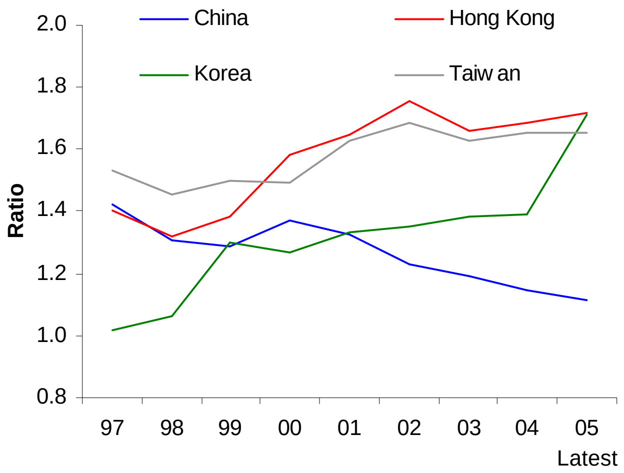
Source: Thomson Financial
Note: Latest 05 figures are from Q2 2005, except for China, which are from Q1 2005.

Chart 1.18b
Interest Coverage Ratio – Southeast Asia (Median)



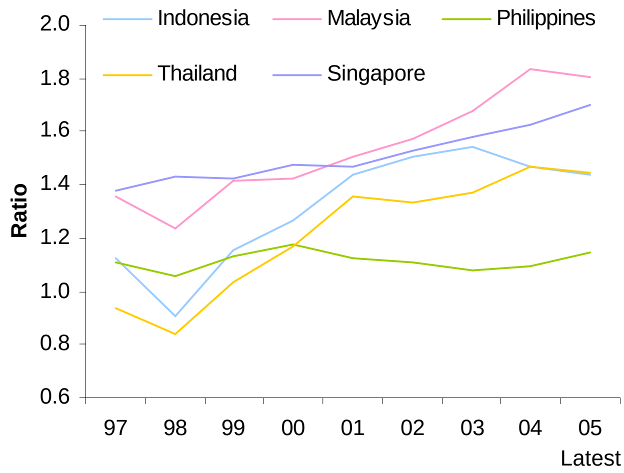
Source: Thomson Financial
Note: Annual figures are as at year-end. Latest 05 figures are from Q2 2005.

Chart 1.19a
Current Ratio – Northeast Asia (Median)



Source: Thomson Financial
Note: Latest 05 figures are from Q2 2005, except for China, which are from Q1 2005.

Chart 1.19b
Current Ratio – Southeast Asia (Median)



Source: Thomson Financial
Note: Annual figures are as at year-end. Latest 05 figures are from Q2 2005.

Authorities have taken measures to curb household indebtedness

Since Q1 2005, total household indebtedness as a proportion of GDP has risen for several economies in East Asia. Some economies registered mortgage loan growth, in line with a pick-up in residential property markets coupled with low interest rates earlier this year. Consumer credit expanded in Hong Kong and Korea on the back of a recovery in household consumption. In Southeast Asia, consumer credit growth continued its uptrend in Malaysia. Consumer credit growth in Thailand picked up in Q3 as consumer sentiment turned around in anticipation of stronger economic growth following the rebound in exports (Table 1.4).

Table 1.4
Household Indebtedness

As % of GDP									
	Mortgages			Consumer Credit			Total Household Credit		
	Q1 05	Q2 05	2005 Latest	Q1 05	Q2 05	2005 Latest	Q1 05	Q2 05	2005 Latest
Indonesia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.7	8.5	8.6
Malaysia*	28.2	28.9	29.7	21.9	23.0	24.2	52.4	54.2	56.4
Philippines	0.6	na	0.6	4.1	n.a.	4.1	4.7	n.a.	4.7
Singapore	62.4	62.3	62.5	21.0	21.2	21.5	83.3	83.5	83.9
Thailand	8.2	8.4	8.8	19.6	15.5	15.7	27.8	23.9	24.5
China	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.1	13.5	13.7
Hong Kong	45.5	46.0	45.5	11.1	11.1	11.4	56.5	57.1	56.9
Korea**	21.2	22.1	23.1	13.1	13.6	14.0	58.9	60.9	60.9
Taiwan	33.3	34.3	35.3	21.9	22.7	23.2	55.1	57.1	58.5

Source: CEIC, Official National Sources, MAS estimates
Note: Definitions vary across countries
*Total household credit includes loans to individuals for securities purchases
** Mortgage and Consumer credit figures for Korea include loans only from commercial banks. Total household credit includes loans from all other non-bank financial institutions

With the current trend of rising interest rates, there are concerns that households may find it increasingly difficult to repay mortgage debt, especially long-term housing loans tied to floating interest rates. Households and banks may also be vulnerable if property prices in the major cities, which have appreciated strongly over the last few years, were to decline sharply. Nonetheless, the impact of a sharp correction in property prices on banks is likely to be mitigated by several factors. First, the rapid growth in residential property prices has been localised and due mostly to the high-end property segment. For example, prices of detached houses in Thailand rose by 11.7% YOY in Q2 2005, compared to 5.5% for town houses. Similarly, the rise in housing market activity in Korea has been confined to the affluent districts. Second, authorities in Asia have implemented targeted measures to cool overheating segments of the property market. In Korea, following a resurgence of property prices in prime residential areas, the government announced fresh measures at end-August 2005 to curb speculation, which are likely to dampen the growth of property prices in the months ahead. In China, property price inflation continued to moderate, following the government's measures to curb speculation in real estate. For example, Shanghai property prices rose only 6.5% YOY in Q3 2005, compared to a peak growth of 29.1% in Q4 2003. Third, the commercial banks of some economies in the region are likely to be less vulnerable given their low exposures to mortgage loans. For example, mortgage loans comprise 8% and 11% of total loans for commercial banks in Indonesia and Thailand respectively (Table 1.5).

Table 1.5
Commercial Bank Mortgages

As % of Total Commercial Bank Loans					
	2003	**2004**	**1Q05**	**2Q05**	**Latest**
Indonesia	6.9	7.6	7.8	8.0	8.2
Malaysia	28.6	28.1	28.5	27.8	27.9
Philippines	2.1	2.1	2.1	NA	2.1
Singapore	30.4	32.9	33.9	33.9	34.1
Thailand	9.2	10.7	10.9	11.1	11.3
China	7.4	9.0	NA	NA	9.0
Hong Kong	36.1	34.1	33.8	33.0	32.6
Korea	30.0	31.6	31.8	32.2	32.5
Taiwan	24.0	25.0	25.4	25.7	25.9

Source: CEIC

Following the prudential measures introduced late last year and early this year, regional regulatory authorities have implemented further measures to curb debt-related vulnerabilities in the household sector. For example, BNM announced the establishment of the Credit Counselling and Debt Management Agency to undertake credit counselling and loan restructuring for individuals in October 2005.[6] In July 2005, the Thai authorities imposed limits on unsecured lending and on interest rates that lenders can charge on these loans. To address the non-performing debts of households, the government and commercial banks in Thailand agreed to a restructuring scheme where the principal amount of the loans would be halved and the unpaid accumulated interests waived. Eligible debtors would have to clear up their remaining debt between January and June 2006.[7]

Banks' balance sheets have strengthened as reforms and liberalisation gather pace

Over the past six months, the balance sheets of banks in East Asia have continued to strengthen. This reflects improved economic fundamentals, tighter prudential regulation and better risk management of the banking systems in the region. Capital Adequacy Ratios (CARs) across the region have remained stable at between 10% and 20%, above the minimum requirement of 8% under Basel I. Most banks across East Asia also registered declines in their non-performing loan (NPL) ratios (Table 1.6). However, Indonesia's NPL ratio rose to 8.8% in August 2005 from 5.8% in end-2004, partly due to more stringent classification of loans for banks adopted by Bank Indonesia and a more adverse business environment.[8]

[6] This agency is expected to begin operations in early-2006.
[7] Loans eligible for the scheme would have to be worth less than Bht200,000 and under court procedure. As of June 2005, this scheme would cover 100,000 borrowers.
[8] Bank Indonesia issued stricter rulings and standardised loan classification in January 2005. The new regulation requires banks to categorise loans that are 91-120 days overdue as sub-standard, compared to up to 180 days previously. On doubtful loans, the classification is for 121-180 days of interest arrears versus to up to 270 days previously. Loans are classified as losses if they are more than 180 days overdue compared to 270 days previously. Also, for debtors with exposure to more than one bank, all banks must adopt the lowest classification by any one bank to the debtor.

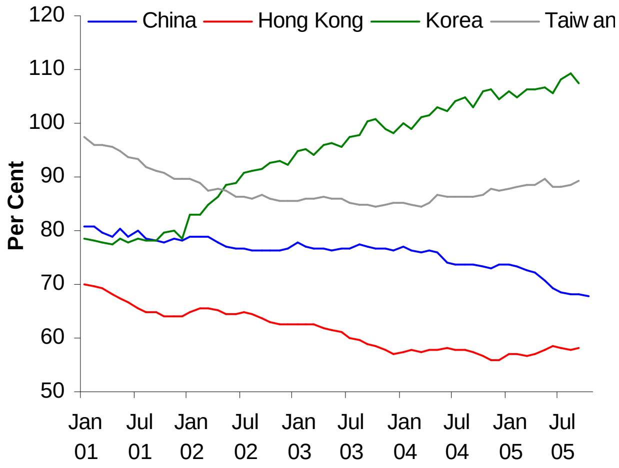
Table 1.6
Non-Performing Loans and Capital Adequacy Ratios[1]

	2001	2002	2003	Jun 2004	Sep 2004	Dec 2004	2005 latest
Non-Performing Loans (as % of commercial bank loans)							
Malaysia	10.5	9.3	8.3	7.7	7.4	6.8	5.9
Indonesia	12.1	8.1	8.2	7.6	6.9	5.8	8.8
Philippines	17.3	14.9	14.1	13.8	13.9	12.7	9.5
Singapore	8.3	7.7	6.7	5.5	5.5	5.0	4.3
Thailand	10.5	15.7	12.8	12.4	11.6	10.9	10.0
China[2]	n.a.	21.6	16.9	15.6	15.7	15.6	10.1
Hong Kong	5.2	3.9	3.2	2.3	2.0	1.6	n.a.
Korea	2.9	1.9	2.2	2.2	2.1	1.7	1.5
Taiwan	7.5	6.1	4.3	3.5	3.3	2.8	2.8
Capital Adequacy Ratio (%)							
Malaysia	12.8	13.2	14.0	14.5	14.2	14.3	13.2
Indonesia	20.5	22.5	19.4	20.9	20.5	19.4	18.9
Philippines	15.3	16.6	17.3	18.4	n.a.	18.7	18.3
Singapore	18.5	17.2	16.2	15.6	16.4	16.2	14.8
Thailand	13.9	13.6	14.0	12.4	12.9	13.0	14.2
China[2]	4.7	4.3	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	16.5	15.7	15.3	15.9	15.9	15.4	15.3
Korea	11.7	11.3	11.2	11.7	n.a.	12.1	12.6
Taiwan	10.4	10.6	10.1	10.0	n.a.	10.7	10.8

Note: Annual figures are as at year-end.
Source: CEIC, Asia Development Bank and Official National Sources
[1] Definitions may vary across countries. Data from official sources may differ from private sources
[2] State-owned commercial banks

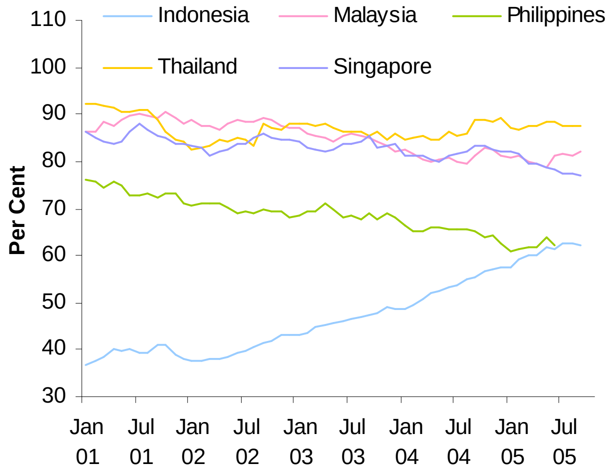
Loan-to-deposit ratios for most economies in the region have remained broadly flat since the last FSR (Chart 1.20). In China, while deposit growth rose steadily to reach 19% in October 2005, loan growth fell to 10% in the same month, less than half the peak rate of 24% two years ago. In the Philippines, lending growth declined after June 2005, as political uncertainty during the period weighed on business and consumer sentiments. While broad conditions of the regional banking system remain positive, rising interest rates may weigh on bank asset quality going forward. The higher interest rate environment may also impinge on bank profitability as interest income remains the main source of revenue for banks. Higher interest rates could push up banks' cost of funds, while weak loan demand could intensify competition among banks to maintain attractive lending rates. This may cause interest margins to narrow, reducing banks' profitability.

Chart 1.20a
Loan-to-Deposit Ratio (Northeast Asia)



Source: CEIC, Thomson Financial

Chart 1.20b
Loan-to-Deposit Ratio (Southeast Asia)



Source: CEIC, Thomson Financial, MAS

While the global economy has remained resilient, downside risks remain

There, however, remain several downside risks to the global outlook. These include a sharp rise in interest rates should inflation continue to surprise on the upside, a possible disorderly correction of the USD, as well as a potential Avian influenza pandemic.

First, the risk of inflation in the US and regional economies surprising on the upside appears to have increased. US CPI rose by 4.3% YOY in October 2005 following a rise of 4.7% a month earlier, the highest inflation rates seen since 1991. Notwithstanding the recent decline in oil prices, high oil prices remain a significant threat as global demand for oil is expected to continue to run up against supply constraints, at least in the short term. If oil prices were to spike up further, the pass-through to inflation could be more severe, with inflation accelerating much more than seen currently. A sharper-than-anticipated rise in interest rates to counter inflationary pressures could slow corporate investment and household spending, resulting in weaker economic growth. In addition, the proliferation of adjustable rate mortgages encouraged by sharp gains in housing prices in the US means a sharp rise in interest rates could put a strain on households' finances and their debt servicing ability (Box Item A). The situation could be exacerbated by a sharp fall in house prices amid a weak economic environment, as some households could be faced with negative housing equity.

Second, the risk of a shift by investors away from USD-denominated assets, which could trigger a disorderly adjustment of the USD, cannot be completely ruled out in light of current global imbalances. While the USD has been supported by rising interest rate differentials, the widening US current account deficit, negative private savings rate, and larger US government's fiscal deficit resulting from post-Katrina reconstruction could weigh on the currency in the medium- to long-term. A disorderly adjustment could result in a reorientation of global capital flows, with significant volatility in global asset prices and heightened risk aversion.

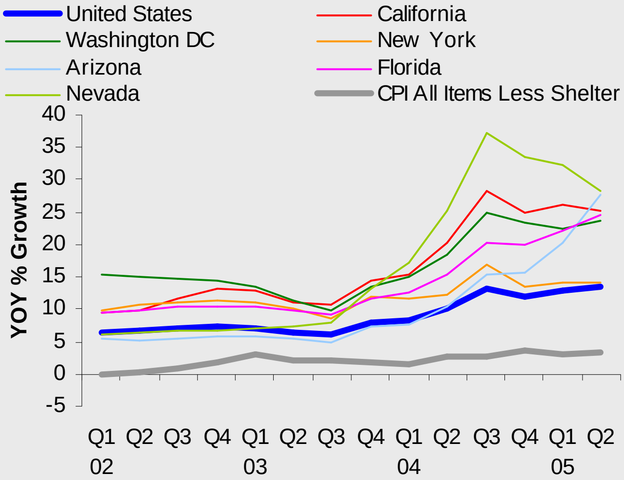
Third, concern has been growing that the Avian influenza H5N1 virus might mutate into a strain capable of human-to-human transmission. Although the outbreaks have so far remained isolated and their economic impact limited to the livestock and tourism industries, an Avian influenza pandemic could have severe impact on the region. The World Bank has estimated that a pandemic could cost the global economy about USD800 bn a year. The Asian Development Bank has also estimated that a year-long shock would cost Asian economies as much as USD283 bn and would reduce Asian[9] GDP by 6.5 percentage points.

[9] In the context of the ADB study, 'Asia' refers to China, Korea, Hong Kong, Indonesia, Malaysia, Singapore, Thailand, the Philippines, and India.

Box Item A
Housing Price Inflation in the US

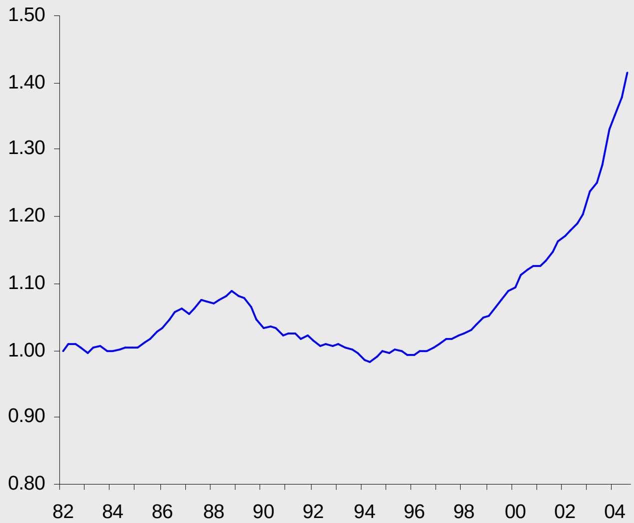
The sustained price appreciation in the US housing market has raised concerns about the existence of a speculative bubble and whether a steep decline in home prices could have a severe impact on the broader economy. As shown by the national average price index, US house prices have on average risen 7% per annum over the 1997-2005 period and rose 13.4% YOY in Q2 2005. The national average, however, masks the strong price appreciation in some states (Chart A1). While housing price inflation has shown signs of slowing of late, it is still rising faster than the consumer price index. House prices relative to rentals have also risen by 32.9% since the start of 2000 (Chart A2) and there has been anecdotal evidence of flipping, i.e. buying and selling before the property is completed, long queues at property launches in popular areas, as well as buyers investing in property in areas they have never visited and do not plan to visit.

Chart A1
US Property Prices



Source: CEIC

Chart A2
House Price-to-Rental Ratio



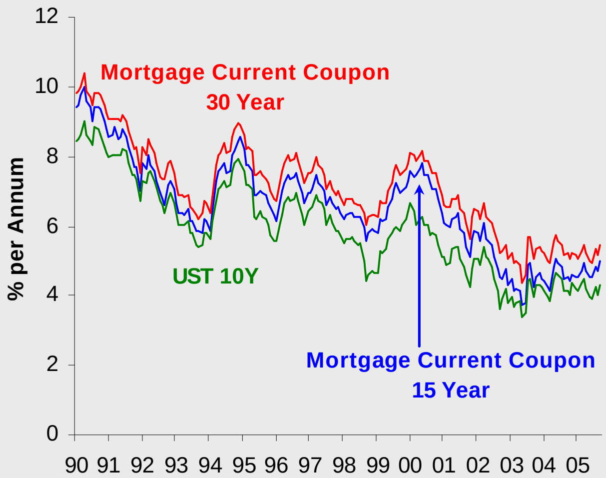
Source: US House Price Index by OFHEO (CEIC)
US Owners Equivalent Rent Index & US Rent of Primary Residence Index by Bureau of Labor Statistics (CEIC)

The oft-quoted reason for the surge in house prices has been the availability of cheap credit. In tandem with historically low long-term interest rates, mortgage rates in the US have declined to record low levels, with the margin of 15-year mortgage rates against the 10-year US Treasury yield decreasing from 156 bps in May 2000 to 69 bps in October 2005 (Chart A3). At the same time, product innovation has allowed banks to transfer and redistribute risks off their balance sheets via structured products such as mortgage-backed securities. This has driven up bank competition for the mortgage business, resulting in easier lending terms and increasingly innovative products including riskier adjustable rate mortgages, interest-only mortgages, and mortgages that allow borrowers to pay less interest than is accrued (negative amortization loans). As at end-2004, US commercial banks' total exposures to the real estate sector, both direct and indirect, accounted for about 42.7% of their balance sheet, up from about 34.7% in 2000 (Chart A4). The increased borrowing by households coupled with the complexity of such innovative products have raised concerns over banks' and households' capacity to manage risks arising from higher interest rates or a steep decline in house prices.

The rise in house prices has spurred US consumer demand through mortgage equity withdrawals, which has provided firm support for the US economy by boosting personal consumption expenditures (Chart A5). However, as interest rates continue to rise, house prices could be expected to level off or even fall. This could lead to a reduction in mortgage equity withdrawals, thereby impacting on household consumption and economic growth.

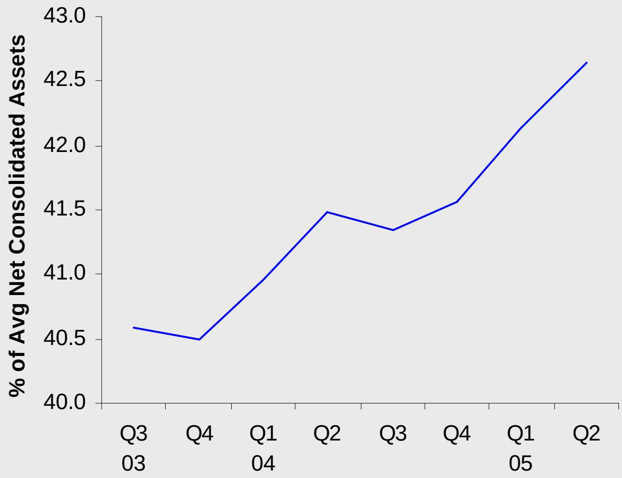
Box Item A (continued)

Chart A3
Mortgage Rates & US Treasury 10-Year Yield



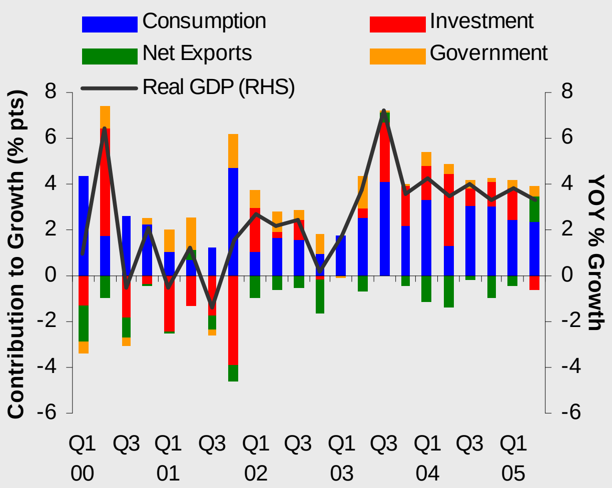
Source: Bloomberg

Chart A4
Commercial Bank Real Estate Exposure



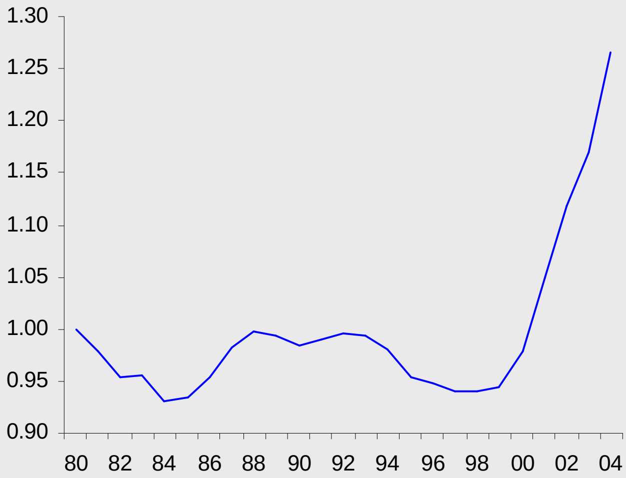
Source: Federal Reserve Board

Chart A5
GDP Growth by Component



Source: Bureau of Economic Analysis

Chart A6
Home Price-to-Income Ratio



Source: US House Price Index by OFHEO (CEIC)
Median Income by US Census Bureau (CEIC)

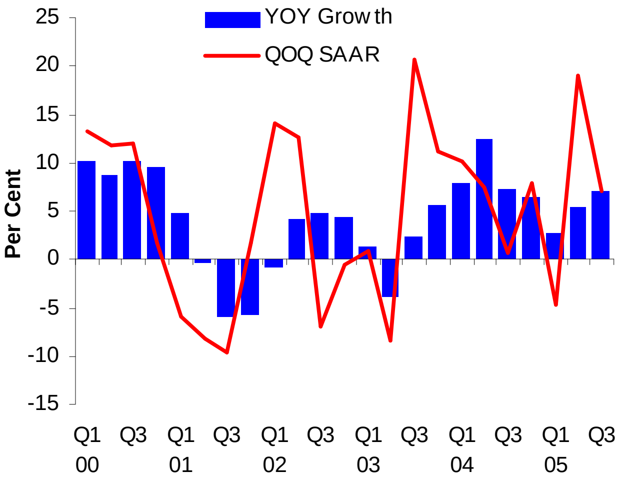
In addition, a rise in interest rates could also result in mortgage payment difficulties given that the home price-to-income ratio has increased significantly since 2000 (Chart A6). However, recent warnings by regulators and the Fed on the potential dangers of risky home mortgages as well as tentative signs of cooling in home construction, sales and mortgage take-ups are leading some lenders to scale back offerings on some of these types of mortgages. US regulators have repeatedly expressed concerns about the risks to lenders and are reportedly examining lending practices and guidelines more closely.

Singapore Economy

Broad-based economic growth reflected stronger contributions from external and domestic demand

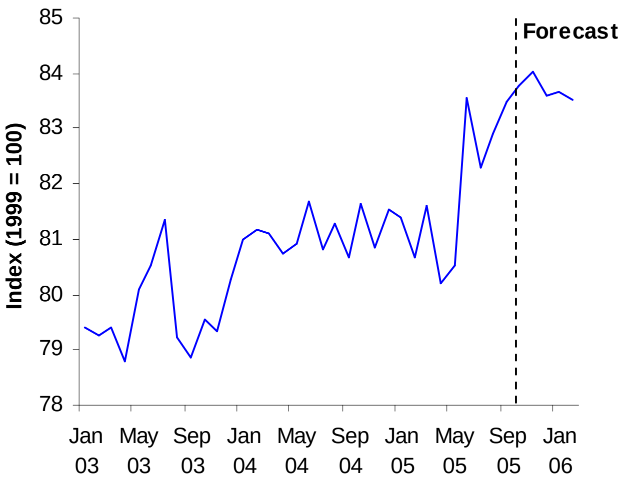
Growth of the Singapore economy strengthened to 7.0% YOY in Q3 2005, from 5.4% in Q2 and 2.7% in Q1 2005 (Chart 1.21). Growth in Q3 2005 was broad-based, reflecting strong contributions from both external and domestic demand. The manufacturing sector was boosted by a surge in biomedical output, which expanded 62% YOY, compared to 2.8% in Q2 2005. The financial services sector also grew 7.0% YOY, helped by stronger activity in the stock broking and fund management segments. In light of the robust performance, the growth forecast for 2005 was revised up to around 5%, from the earlier announced forecast of 3.5%-4.5%. GDP growth for 2006 is expected to come in at 3-5%. The MAS Electronics Leading Index is forecasting sustained high levels of IT production going into 2006 (Chart 1.22), suggesting continued resilience in the domestic electronics cluster, which accounts for a significant proportion of Singapore's exports.

Chart 1.21
Singapore's GDP Growth



Source: DOS

Chart 1.22
Electronics Leading Indicator

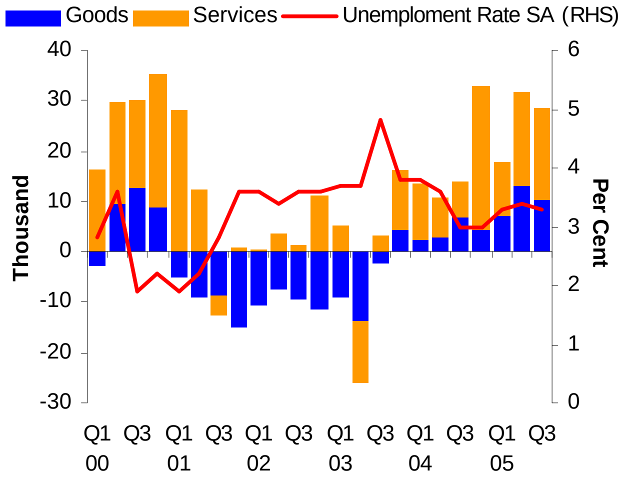


Source: MAS estimates

Labour market conditions continued to improve in recent two quarters; Inflation remained benign

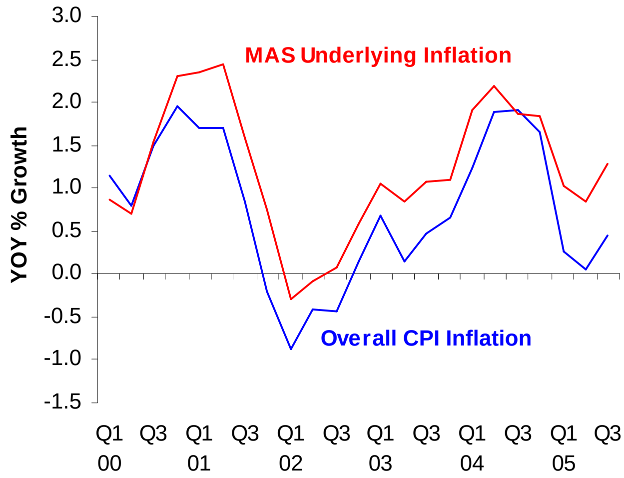
The labour market continued to improve in tandem with the broad-based economic expansion, with strong employment gains of 31,700 in Q2 2005 and 28,700 in Q3 2005. This brought total employment creation in the first nine months of the year to 78,200, outpacing the 71,400 jobs created in the whole of 2004 (Chart 1.23). As a result, the unemployment rate eased to 3.3% in Q3 2005, from 3.4% in Q2 2005. On the inflation front, the impact of high oil prices on consumer prices has been fairly muted partly due to strong retail competition. CPI inflation in Q2 and Q3 2005 remained under 0.5%, with full year inflation expected to come in at 0-0.5%. CPI inflation is expected to rise to 0.5-1.5% in 2006 as price pressures from higher commodity prices, rising wages and service cost adjustments gradually filter through (Chart 1.24).

Chart 1.23
QOQ Employment Changes



Source: MOM

Chart 1.24
Consumer Price Inflation

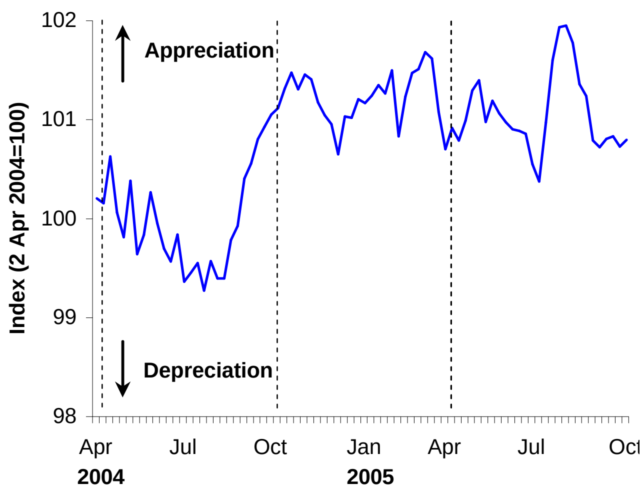


Source: DOS, MAS

MAS maintained policy of modest and gradual appreciation of the S$NEER

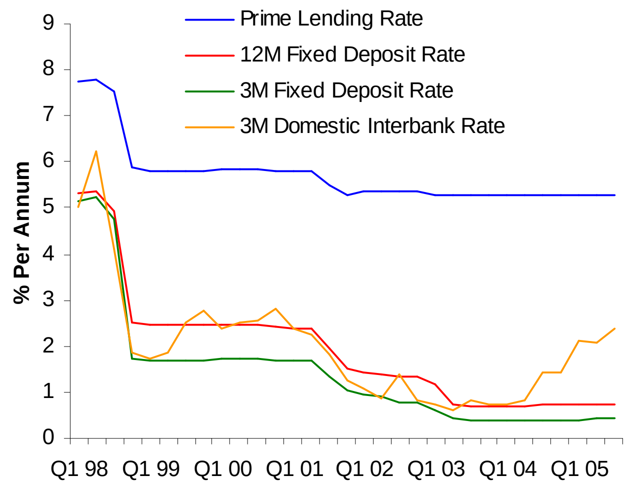
MAS has adopted a policy of a modest and gradual appreciation of the S$NEER since April 2004. This policy stance was reiterated in July 2005 following the People's Bank of China's (PBOC) announcement of reforms to the Renminbi (RMB) exchange rate regime. MAS maintained the policy stance in its latest Monetary Policy Statement on 11 October 2005. The assessment was that amid continued growth in the external economies, the Singapore economy is likely to keep close to its potential output trajectory this year and in 2006. CPI inflation is also expected to rise next year on the back of higher global inflation and domestic costs, although it should remain relatively contained under the current policy stance (Chart 1.25). In tandem with US interest rate hikes, the three-month SGD interbank rate has risen by about 100 bps to 3.19% for the period June to November 2005 (Chart 1.26).

Chart 1.25
Movements in S$NEER



Source: MAS

Chart 1.26
Domestic interest rates



Source: MAS

II NON-FINANCIAL SECTOR

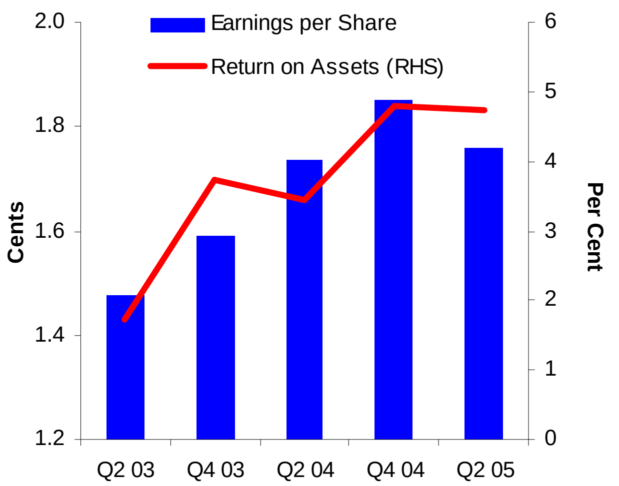
2.1 Non-financial Corporate Sector[10]

The Singapore corporate sector, which accounts for an estimated two-fifths of non-bank loan exposure of banks in Singapore, has continued to perform well over the last six months. Firms' profitability continued to be healthy while liquidity improved on the back of robust economic growth in the first half of the year. Firms' financial leverage also decreased across most sub-sectors. Business outlook remained positive on the whole.

Corporate profitability remained healthy while liquidity improved

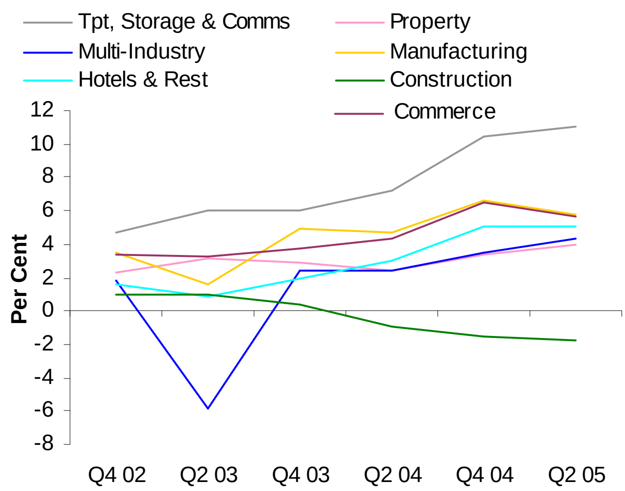
Although overall corporate profitability in Q2 2005 fell marginally compared to Q4 2004, it remained healthy on the back of continuing domestic and regional economic growth. In Q2 2005, publicly listed non-financial firms reported a small increase in median earnings per share (EPS) of 1.7% from a year ago while overall median return on assets (ROA) recorded 4.7% (Chart 2.1). With the exception of the Construction sector, median ROA across all corporate sub-sectors remained positive (Chart 2.2).

Chart 2.1
Earnings per Share & Overall Return on Assets (Median)



Source: Thomson Financial

Chart 2.2
Return On Assets (Median)

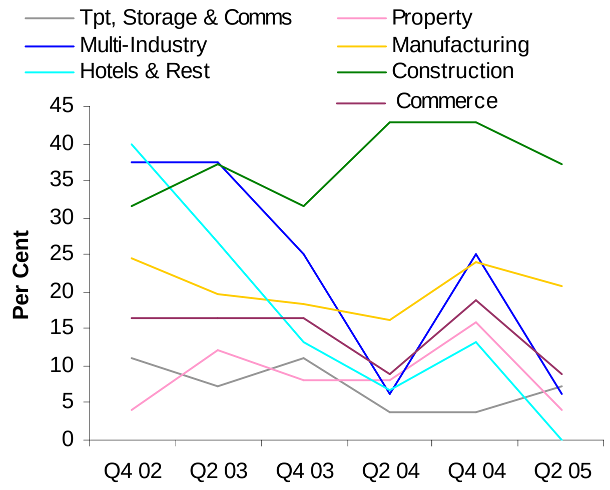


Source: Thomson Financial

The percentage of firms which made losses decreased across all sub-sectors in Q2 2005, except for the Transport, Storage and Communications (TS&C) sector. Firms in the Property, Hotels & Restaurants, Commerce, Multi-industry sectors showed the largest improvements (Chart 2.3).

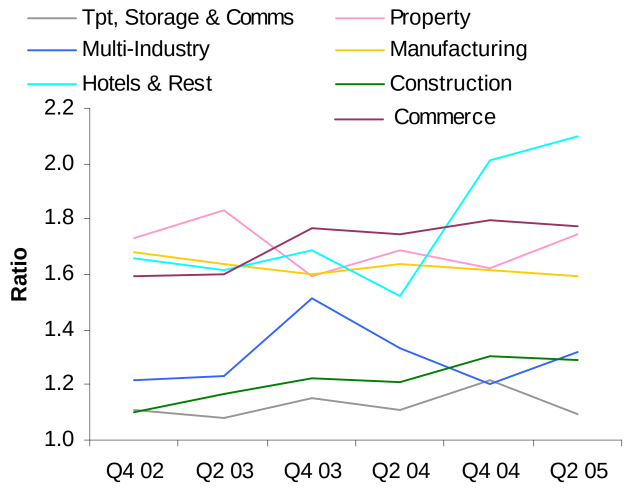
[10] All corporate data cover listed companies only. The latest data point provided is Q2 2005 as most of the companies that are not required to do quarterly reporting tend to report in Q2 and Q4 of each year only.

Chart 2.3
Share of Companies Making a Loss



Source: Thomson Financial

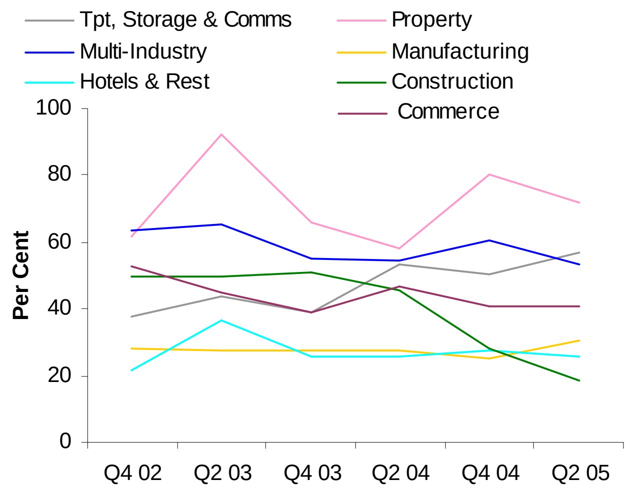
Chart 2.4
Current Ratio (Median)



Source: Thomson Financial

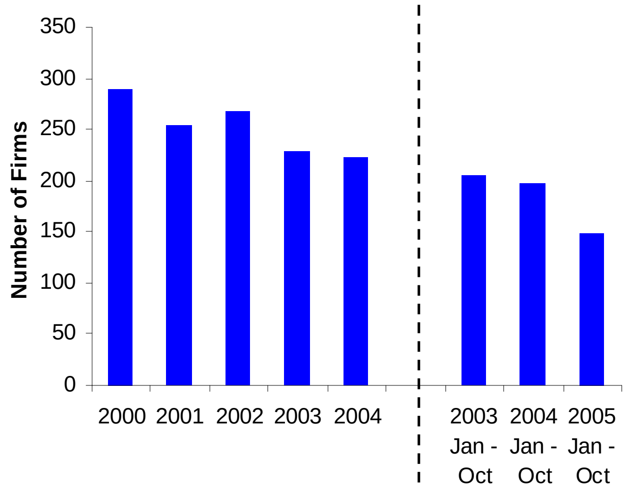
Increased profitability helped to sustain the corporate sector's liquidity position, with firms' current ratio, defined as current assets over current liabilities, standing at 1.6 on average in Q2 2005 (Chart 2.4). In particular, the liquidity positions of firms in the Property, Hotels & Restaurants and Multi-industry sectors have improved, while their leverage ratios have decreased (Chart 2.5). The number of firms wound up has fallen to 146 in January to October this year, compared to 197 and 206 firms in the same period in 2004 and 2003 respectively (Chart 2.6).

Chart 2.5
Leverage Ratio* (Median)



Source: Thomson Financial
* Debt-to-equity

Chart 2.6
Number of Firms Wound Up



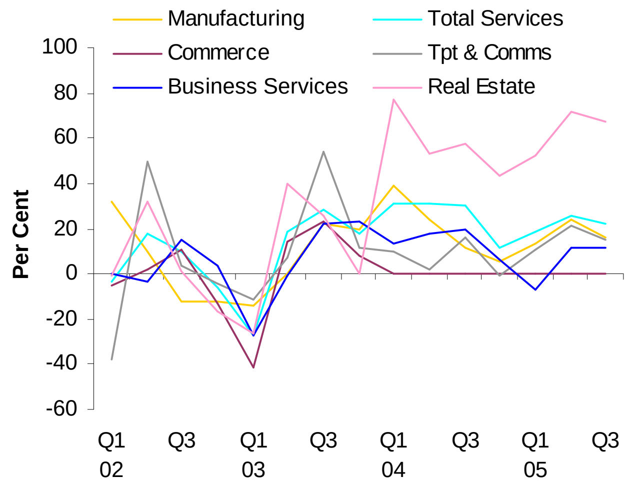
Source: Ministry of Law

Surveys of manufacturing and services sectors suggest positive business outlook

Recent business outlook surveys of Singapore firms painted an optimistic picture for business conditions in the six months between October 2005 and March 2006.

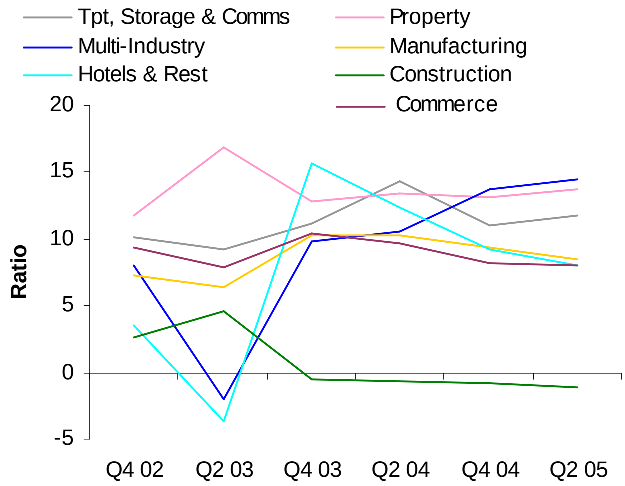
Manufacturing firms remained optimistic about business conditions on the back of rising global electronics demand, with a net balance of 16%[11] of manufacturers predicting positive business sentiments (Chart 2.7). Similarly, firms in the services sector maintained a positive outlook, with a net balance of 22% of firms anticipating favourable business conditions ahead. In the BT-Global Business Insights business climate survey released in October 2005, a net balance of 40% of firms in Q3 2005 anticipated favourable business prospects ahead, an increase from a net balance of 37% in Q2 2005. Price-to-earnings (P/E) ratios for the corporate sector have largely been stable for the past few quarters, with stock prices of the Property and the Multi-industry sectors among the highest at 13.7 times and 14.5 times earnings respectively (Chart 2.8). However, the P/E ratio for the Construction sector has remained weak.

Chart 2.7
General Business Outlook



Source: DOS, Business Expectation Survey; EDB, Survey of Business Expectations of the Manufacturing Sector

Chart 2.8
Price/Earnings Ratio (Median)



Source: Thomson Financial

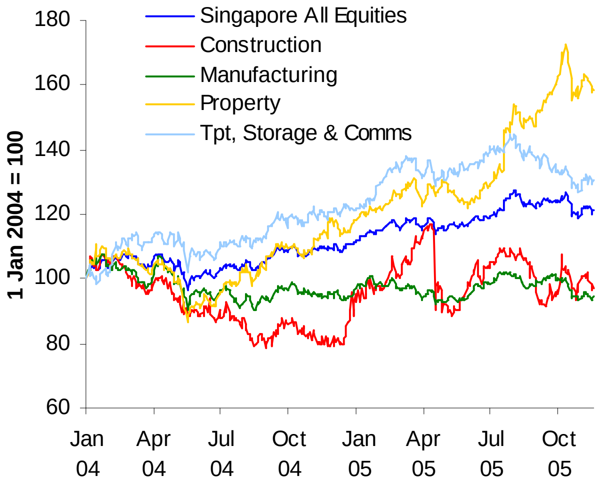
The generally favourable performance of the corporate sector has been reflected in the broad increase in prices of Singapore equities through 2005, although prices appear to have peaked in early-October 2005 (Chart 2.9). In particular, equity prices of firms in the property sector outperformed the broader market, as the recovery in property markets appeared to have gained traction. Estimates released by the Urban Redevelopment Authority (URA) showed that private home price index increased 1.2% QOQ in Q3 2005 compared to a rise of 0.5% QOQ in the previous quarter. On a YOY basis, the index rose 3% in Q3 2005. In addition, results reported by property developers seem to lend support to this positive outlook.[12] In contrast, the stock prices of the TS&C sector, which has been an out-performer since early-2004, dipped as higher oil prices took its toll on airline stocks and the levelling of

[11] Overall, a weighted 25% of manufacturers foresee an improved outlook while 9% predict a deterioration. This results in a net balance of 16% of manufacturers predicting positive sentiments.

[12] For example, since the start of 2005, Capitaland has sold over 750 private homes in Singapore, worth nearly SGD1 bn, topping sales of 468 homes totalling SGD400 mn for the whole of 2004. The successful soft launch of City Development and AIG Global Real Estate Investment Corp's development 'The Sail at Marina' are other cases in point.

freight rates moderated shipping stocks. Equity prices of the Manufacturing and Construction sectors continued to lag the overall market.

Chart 2.9
Selected Equity Indices



Source: Thomson Financial

2.2 Household Sector[13]

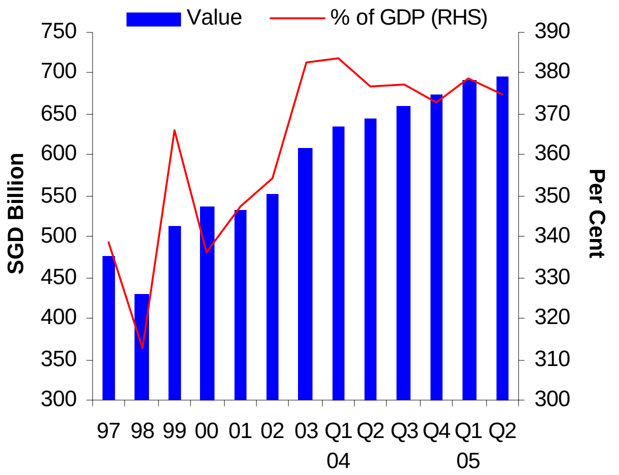
The household sector plays an important role in Singapore's financial system as it accounts for a significant share of loans extended by the banking sector. Currently, household borrowings account for more than half of non-bank loans compared to about a quarter in the early 1990s. Given the significant exposure of the banking system to the household sector, it is important to assess the financial health of the latter. Singapore households' financial wealth, defined as household assets less household liabilities, was estimated to have strengthened by 3.5% in the first half of 2005 to SGD697 bn, which was about four times 2004 nominal GDP (Chart 2.10).

Household balance sheet continued to strengthen, boosted by gains in financial assets

Total household assets were estimated to have grown by 2.8% to SGD853 bn in Q2 2005 from SGD829bn in Q4 2004, while total household liabilities were estimated to be largely unchanged at SGD156 bn. Consequently, households' financial gearing was estimated to have fallen marginally to about 18% in Q2 2005 (Chart 2.11).

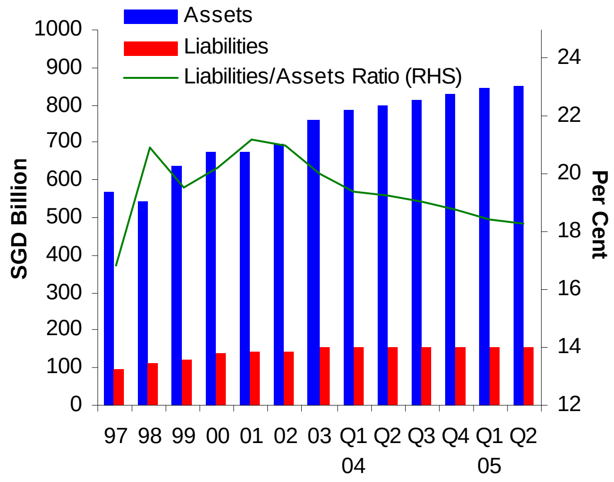
[13] Data in this section are mostly MAS' estimates using data from other ministries and statutory boards.

Chart 2.10
Household Net Wealth



Source: MAS estimates

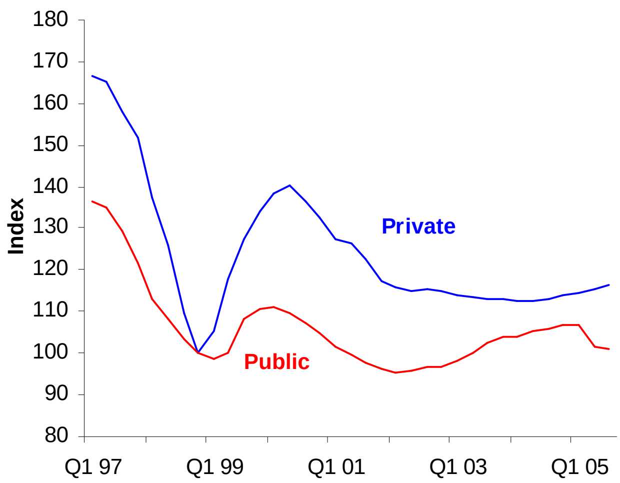
Chart 2.11
Household Assets and Liabilities



Source: MAS estimates

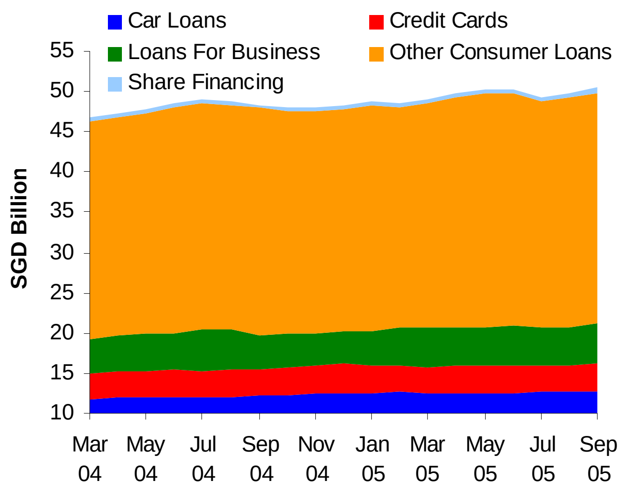
Household assets were largely boosted in the first half of 2005 by gains in financial assets such as stocks, unit trusts and investment-linked insurance. While private property prices showed a modest increase during the period, the growth of residential property values was capped by the 3.6% YOY fall in the prices of Housing Development Board[14] (HDB) flats in Q2 2005 (Chart 2.12). In the first half of 2005, household liabilities were estimated to have remained relatively unchanged, although household liabilities as a percentage of GDP fell to 84% in Q2 2005 from 96% in 2003. Mortgage loans, which made up about three-quarters of household liabilities, increased slightly in Q2 2005 as the growth in mortgage loans extended by banks outpaced the fall in mortgage loans by HDB. Personal loans, which include unsecured credit, motor vehicle loans and credit cards, remained relatively unchanged during the period (Chart 2.13).

Chart 2.12
Residential Property Prices



Source: URA and HDB

Chart 2.13
Personal Loans



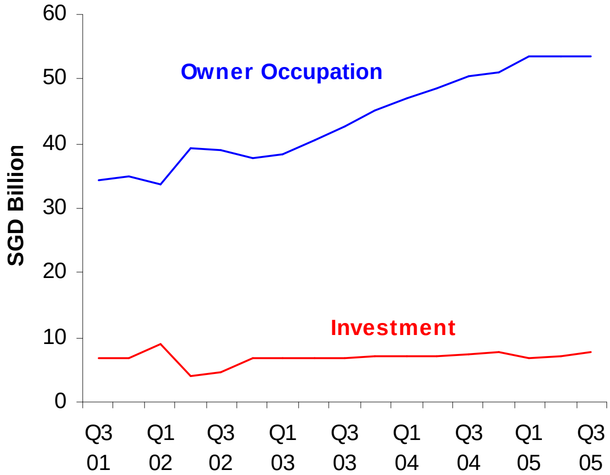
Source: MAS estimates

[14] HDB is the government agency that oversees public housing in Singapore. About 84% of the Singapore population live in HDB flats.

Easing of mortgage policy guidelines has not seen many new mortgages with LTV ratio of above 80%

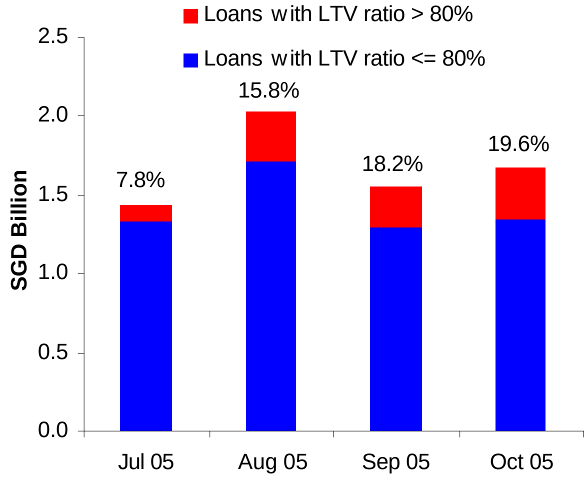
The easing of mortgage policy guidelines on 19 July 2005, when the maximum Loan-to-Value (LTV) ratio for new housing loans was raised from 80% to 90% and the cash portion of down payment lowered from 10% to 5%, has not led to significant take-up of mortgages by either owner-occupiers or investors (Chart 2.14). A recent MAS survey of banks on the new housing rule showed that mortgages with LTV ratio of above 80% accounted for an average 15.4% of total new mortgages for the period July to October 2005 (Chart 2.15). Mortgage loans with higher LTV ratio incurred higher interest rates, as banks are required to hold higher capital for such loans[15] (Table 2.1). Of the new mortgages with LTV ratios of above 80%, more than four-fifth were taken up by owner-occupiers (Chart 2.16).

Chart 2.14
Housing Mortgages



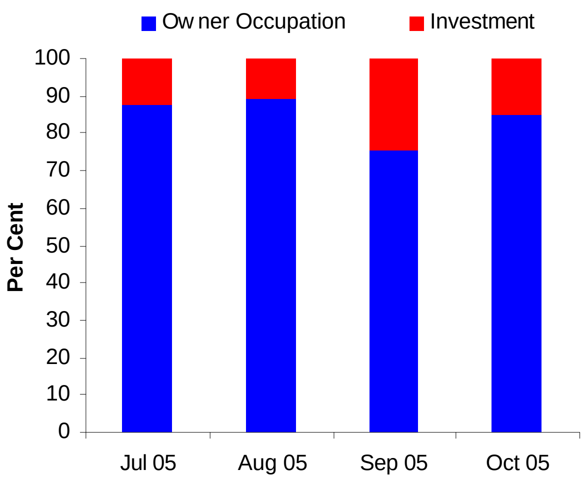
Source: MAS

Chart 2.15
New Housing Loans



Source: MAS estimates
Note: Figures above the bars represent percentage of new mortgages with LTV ratio of above 80%

Chart 2.16
New Housing Loans with LTV ratio > 80%



Source: MAS estimates

[15] Banks are also expected to have more rigorous internal credit evaluation criteria before extending these higher LTV loans.

Table 2.1
Local Banks' Mortgage Loan Rates

	First Year	Second Year	Third Year	Fourth Year onwards
HDB Housing Loan Rates [<=80% Financing]				
POSB	3.00	3.25	3.50	3.50
UOB	2.75	3.75	3.50	3.50
OCBC	2.75	3.75	3.50	3.50
HDB Housing Loan Rates [>80% Financing]				
POSB	3.75	4.25	5.00	5.00
UOB	3.50	4.50	4.50	4.50
OCBC	3.50	4.50	4.50	4.50
Private Housing Loan Rates [<=80% Financing]				
DBS	3.00	3.25	3.50	3.50
UOB	2.75	3.75	3.50	3.50
OCBC	2.75	3.75	3.50	3.50
Private Housing Loan Rates [>80% Financing]				
DBS	3.75	4.25	5.00	5.00
UOB	3.50	4.50	4.50	4.50
OCBC	3.50	4.50	4.50	4.50

Source: Local Banks
Note: Mortgage loan rates are for 2-year fixed rate packages as at November 2005

Negative housing equity situation continued to improve, supported by rising private property prices and better economic conditions

An MAS survey of six banks that accounted for almost the entire housing loan market showed that negative housing equity for private residential properties fell to 7.1% of the total value of outstanding mortgage loans in September 2005, from 9.9% a year ago. Similarly, in terms of mortgage accounts, 7.6% were in negative equity in September 2005 compared to 9.9% a year earlier. The improvement in the negative housing equity situation was supported by the modest rise in private property prices, better economic conditions as well as some households shifting to loans that give financial institutions, instead of the Central Provident Fund (CPF) Board, the priority charge over the corresponding mortgage property (Table 2.2).[16] The survey results also showed that negative housing equity continued to remain low in bank-originated HDB mortgages at 0.4% of total value of loans outstanding in September 2005.

[16] In Singapore, households may use their CPF savings for purchasing properties. Previously, the CPF Board had priority claims over properties mortgaged for bank-originated housing loans. Since 2002, the rules have been changed such that financial institutions have the priority claims. With the change, computation of negative housing equity involves a comparison of the property value against the outstanding loan, instead of against the sum of the outstanding loan and amount of CPF savings used for the purchase of the property.

Table 2.2
Survey Results on Negative Housing Equity (Private Properties)

	Sep 2003	Mar 2004	Sep 2004	Sep 2005
Residential Housing Loans in negative equity				
- Percentage of total number of accounts	13.7	12.3	9.9	7.6
- Percentage of total outstanding value of Residential Housing Loans	14.1	12.3	9.9	7.1
Of the Residential Housing Loans in negative equity[1]				
- Percentage of accounts in delinquency (>90 days overdue)	2.9	3.1	3.0	3.5
- Percentage of outstanding value in delinquency (>90 days overdue)	5.0	5.1	4.9	5.7
- Percentage of outstanding value that is unsecured	28.0	27.7	25.4	26.5

Source: MAS
[1] The small increase in delinquency rates and outstanding value that is unsecured in September 2005 was due to the decrease in the residential housing loans in negative equity (or denominator) rather than an increase in delinquencies or outstanding value that is unsecured.

III FINANCIAL INSTITUTIONS

3.1 Banking Sector

Since the June FSR, the banking sector has remained sound on the back of continued expansion in economic activity and financially healthy household and corporate sectors. Commercial bank lending rose at a slower pace in the second quarter before accelerating in the third quarter to reach 8.5% YOY. The renewed strength in credit demand was due to strong activity in non-bank lending in the Asian Dollar Market (ADM) and overall interbank lending. In contrast, domestic non-bank loans saw slower growth. Banks have sufficient reserves of liquid assets to cover their short-term cash outflows in SGD, suggesting low liquidity risk in the banking system.

All three local banking groups saw profit growth, declining NPL ratios, and capital positions that were above the regulatory requirement. The strong balance sheet positions of the banks would allow them to weather the increased macroeconomic risks in the external environment due to high oil prices and widening global imbalances. To assess the banking system's resilience to some of these risks, a stress test based on a significantly higher interest rate environment leading to a sharp contraction in economic growth was conducted on six major banks, including the local banks. The stress test results showed that the potential losses from market risk would be about half of the average pre-tax profits of the six banks in the past five years (Box Item B).

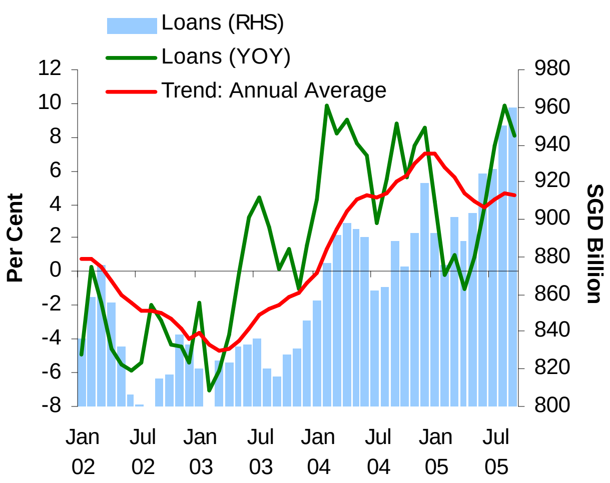
Renewed strength in demand for credit due to strong activity in non-bank lending in Asian Dollar Market and overall interbank lending

Commercial bank lending grew at a slower pace in Q2 2005 before accelerating in Q3 2005 to reach 8.5% YOY (Chart 3.1). The growth in total lending in Q2 and Q3 was largely due to interbank activity. Loans to banks in Europe drove the growth of overall interbank lending although loans to banks in Japan also made a significant contribution, reflecting the sustained recovery in the Japanese economy (Chart 3.2). Notably, loans to banks in the ASEAN countries saw a pickup in recent months.

The growth of overall non-bank lending has remained strong since March 2005 (Chart 3.3). This was supported by acceleration in ADM non-bank lending, partly due to increased demand for foreign currency loans by Singapore-based firms. In contrast, domestic non-bank loans saw slower growth, as lending to households grew at a slower pace while lending to firms remained weak (Chart 3.4). Discussions with market participants suggest that rising interest rates and high oil prices have dampened demand for consumer loans. Some banks have tried to counter the slowdown in loan demand by offering more customised products and services, and differential pricing, where lower risk customers would be charged lower rates or fees.

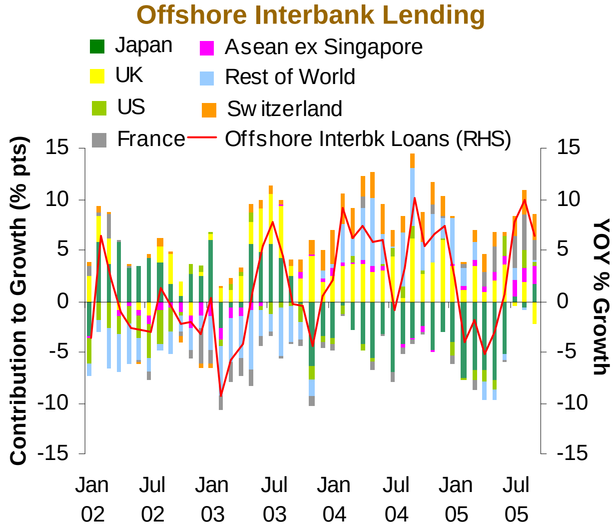
The easing of mortgage policy guidelines on LTV ratios and cash downpayments on 19 July 2005 has not resulted in any acceleration in mortgage demand, perhaps reflecting the effect of higher interest rates. MOM growth in domestic mortgages outstanding slowed from 0.7% in March to about 0.2% in August and September 2005.

Chart 3.1
Total Commercial Bank Lending



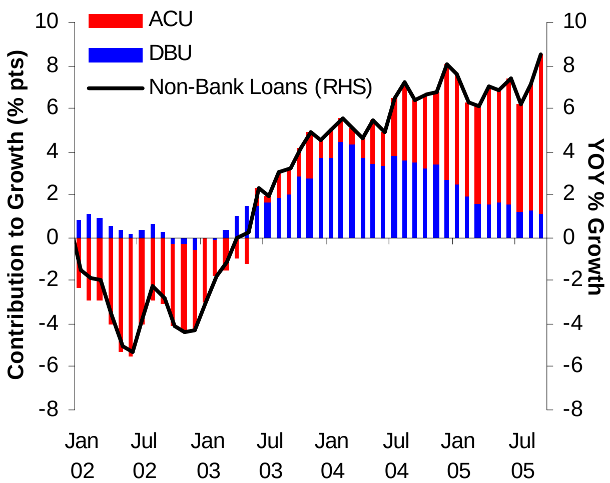
Source: MAS

Chart 3.2
Offshore Interbank Lending



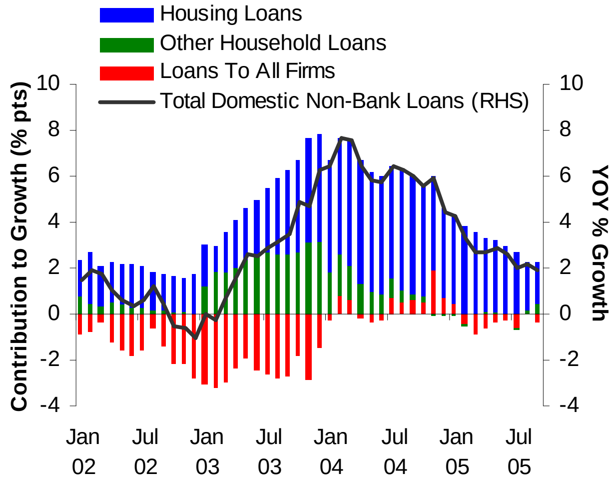
Source: MAS

Chart 3.3
Total Non-Bank Lending



Source: MAS

Chart 3.4
Domestic Non-Bank Loans



Source: MAS

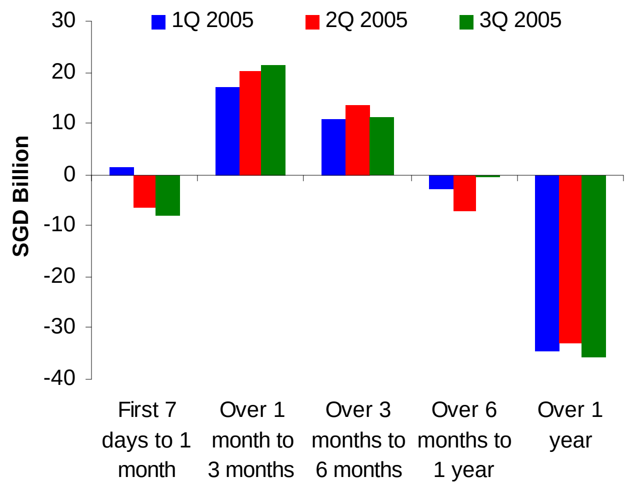
Banking sector's exposure to hedge funds limited

There have been some concerns at international stability fora about the growth of hedge funds. Systemic concerns arise because in periods of market stress, hedge funds could amplify large movement in key asset prices. Moreover, the viability of a financial institution could be severely threatened should a major hedge fund fail, as a result of losses arising from the institution's direct exposure to the fund and resulting from the impact on other market risks to which the institution is exposed. In light of this, MAS conducted a survey of the Singapore banking sector's exposure to hedge funds as at May 2005, covering all commercial and merchant banks in Singapore. In addition, a few financial institutions identified by the industry to have significant prime brokerage businesses were shortlisted and surveyed on their prime brokerage activities in Singapore. The survey results showed that few banks in Singapore have direct exposures to hedge funds. Of the 150 surveyed, only 16 banks had exposures to hedge funds – twelve through direct exposures (on- and off-balance sheet), and four as collateral held for loans to clients. Both on-balance and off balance sheet exposures constitute less than 1% total assets.

Banks have sufficient liquid assets to cover their short-term SGD cash outflows

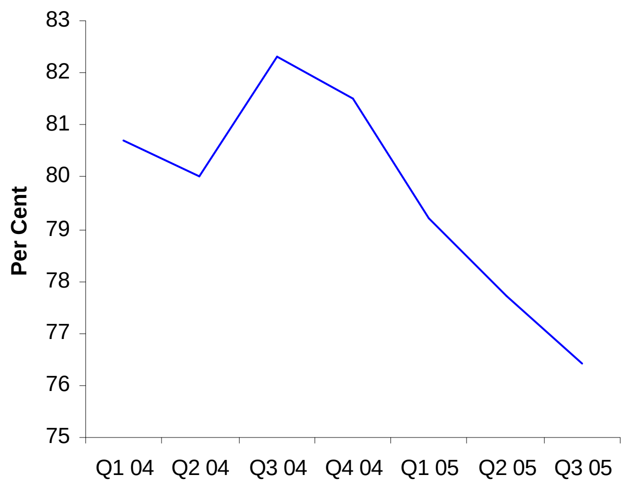
The profile of banks' SGD cashflows has remained relatively unchanged since March, with projected net cash outflows of less than SGD10 bn for maturities of less than one month and of between six to twelve months, and larger projected net cash inflows for other maturities under one year (Chart 3.5). The net cash outflows and inflows were largely due to interest payments on non-bank deposits and interest receipts from interbank and non-bank lending, respectively. The net cash outflows of close to SGD40 bn in the longer maturities of more than 1 year would be less of a concern as they comprised mainly banks' holding of non-bank deposits, which are typically a stable source of funding. On the whole, banks are able to fund their entire SGD non-bank lending by SGD non-bank deposits alone, as shown by the loan-to-deposit ratio of less than 100% (Chart 3.6).

Chart 3.5
Banks' SGD Net Cashflows by Maturity



Source: MAS estimates
Note: Data covers 11 banks on the new Minimum Liquid Assets (MLA) framework.

Chart 3.6
Banking Sector's SGD Loan-to-Deposit Ratio



Source: MAS estimates

Individual banks are required to maintain minimum liquid assets to provide buffer for unexpected stress events. For this purpose, the regulatory Minimum Liquid Assets (MLA) requirement for banks in Singapore, as determined by the liquid asset ratio[17], ranges from 12-18% for banks on the new MLA framework and a flat 18% for other banks. At the aggregate level, commercial banks in Singapore have sufficient liquid assets to cover their short-term (less than 1 month) SGD cash outflows (Table 3.1).

Table 3.1
Banks' Short-Term Net Cashflows as % of Liquid Assets in Excess of MLA Requirement

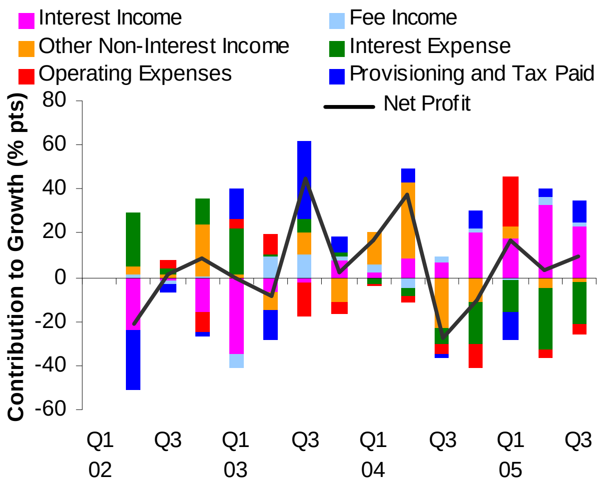
	Short-Term (< 1 month) Net Cash Outflows/Inflows SGD Billion (A)	Liquid Assets in excess of MLA SGD Billion (B)	Short-Term (<1 month) Net Cash Outflows as % of Liquid Assets % (C) = (A)/(B)
Q3 2005	-8.0	14.3	55.9
Q2 2005	-6.2	15.4	40.3
Q1 2005	1.3	15.3	-
Q4 2004	-4.1	16.0	25.6
Q3 2004	-4.6	18.3	25.1

Source: MAS estimates
Note: Data covers 11 banks on the new MLA framework.

Local banks' profitability has continued to hold up

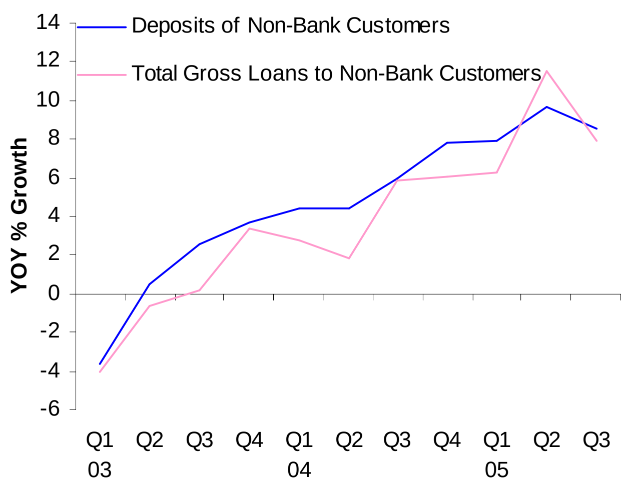
The net profits of the three local banking groups, in aggregate, rose by 3.6% QOQ in Q2 and 9.8% QOQ in Q3 2005 (Chart 3.7). Concomitantly, the average of the three banks' return on equity (ROE) increased from 10.8% in Q1 to 12.1% in Q3 2005. Their QOQ profit growth in the second and third quarters was driven by interest income and provisioning write-backs. In general, profits have been moderated by high interest expenses, due to higher interest rates and strong deposit growth (Chart 3.8).

Chart 3.7
Local Banks' QOQ Profit Growth by Components



Source: Local Banks

Chart 3.8
Local Banks' Non-Bank Loans and Deposits



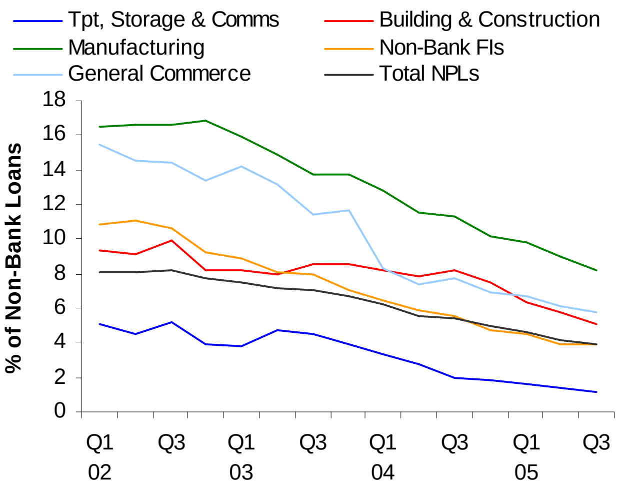
Source: Local Banks

[17] Defined as liquid assets in excess of required Minimum Cash Balance relative to the liabilities base in the Domestic Banking Unit.

Local banks' NPL ratios declined throughout the year and their CARs remained above regulatory requirement

Averaging 15.4% this year, the local banks' total CAR remained above the regulatory minimum requirement of 10%. NPL ratios declined throughout the year, reaching 4% as at end-Q3 2005 (Chart 3.9). However, variation in NPL ratios across industrial sectors remained significant and may, in part, explain why domestic lending to some industrial sectors was subdued despite the strength in economic activity, although firms' preference for funding directly from the capital market could also be an important factor.

Chart 3.9
Local Banks' Aggregate NPL Ratios



Source: Local Banks

Box Item B
Stress Test of Major Banks in Singapore

A market-risk stress test[1] was carried out on major banks[2] in Singapore under a scenario of a rapidly rising interest rate environment leading to sharp contractions in economic growth and asset prices. In an environment of weak growth, most currencies fall slightly against the USD. The opposing influences of high inflation and slower economic growth on monetary policy cause uncertainty over future interest rate movements, resulting in greatly heightened volatility in financial markets. The weaker economic environment also sees a spate of corporate failures with a significant widening of corporate credit spreads, especially those of emerging market economies (Table B1).

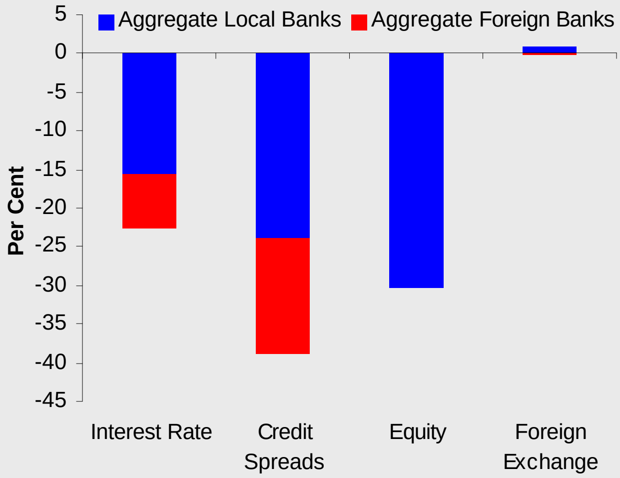
Table B1: Stress Test Assumptions

Variables	Stress Test Scenario
Equity	
Prices	-30%
Volatility (relative shift), up to 1 year	+50%
Volatility (relative shift), more than 1 year	+20%
Interest Rates	
Risk free rate (bps change), up to 1 year	+300
Risk free rate (bps change), 10 years and above	+100
Volatility (relative shift), up to 1 year	+50%
Volatility (relative shift), more than 1 year	+20%
Deposit and Lending Rates (bps change)	+100
Credit spreads (bps change)	
Developed Countries - A ratings	+100
Developed Countries - other ratings	+150
Other Countries - all ratings	+300
Exchange Rate (% change; positive denotes appreciation of USD)	
USD vis-a-vis SGD	+2.5
USD vis-à-vis HKD	0
USD vis-a-vis all other currencies	+5.0
Volatility (relative shift), up to 1 year	+50%
Volatility (relative shift), more than 1 year	+20%

The stress test results showed that the three local banking groups would incur overall losses of about SGD2.8 bn while the three foreign banks would suffer potential losses amounting to SGD271 mn. Under the current stress test scenario, the local banks would incur losses across most market risk categories. The bulk of the local banks' losses would be from the sharp decline in equity prices, whereas the foreign banks' losses would mainly arise from increases in credit spreads. Overall, all six banks would have sufficient buffer to absorb these losses: estimated aggregated losses would be about 66% and 22% respectively of average pre-tax profit over the past five years for the local and foreign banks (Chart B1).

Box Item B (continued)

Chart B1
Net Aggregated Losses by Category of Risk
as at September 2005
(% of Average Pre-Tax Profit from 2000-2004)



Source: Banks, MAS estimates

1/ For this FSR, the stress test only covered market risk. A credit-risk stress test was conducted on the three local banking groups for the June 2005 FSR, based on a scenario of a sharp depreciation of the USD leading to a global economic slowdown. Under the scenario, aggregate NPLs for the banks would rise by SGD8.7 bn while provisioning would increase by SGD2.8 bn. Consequently, aggregate CAR for the banks would decline by 100 bps to 15.2%, above the minimum regulatory requirement.

2/ Three local banking groups and three foreign banks.

3.2 Insurance Sector

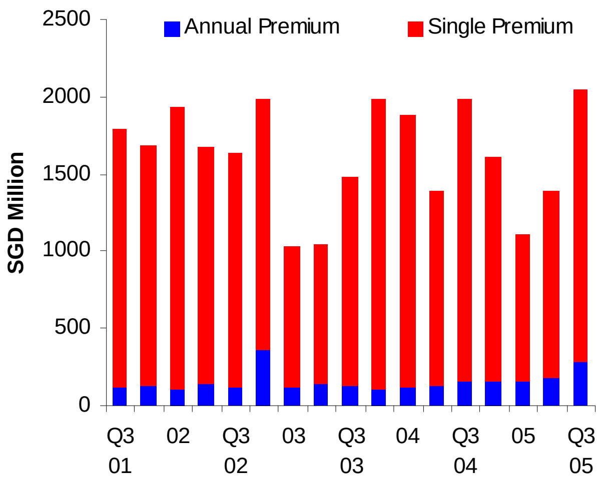
Since the June 2005 FSR, the outlook for the global reinsurance sector has appeared more uncertain with the occurrence of a chain of natural catastrophes in 2005. However, the impact on the Singapore insurance sector is expected to be minimal with Hurricane Katrina unlikely to affect significantly Singapore general insurers and reinsurers. As a whole, the Singapore insurance sector registered improved financial performance in Q3 2005.

Singapore Life Insurance

New business premiums grew in Q3 2005, boosted by the transfer of the Dependents' Protection Scheme to private life insurers

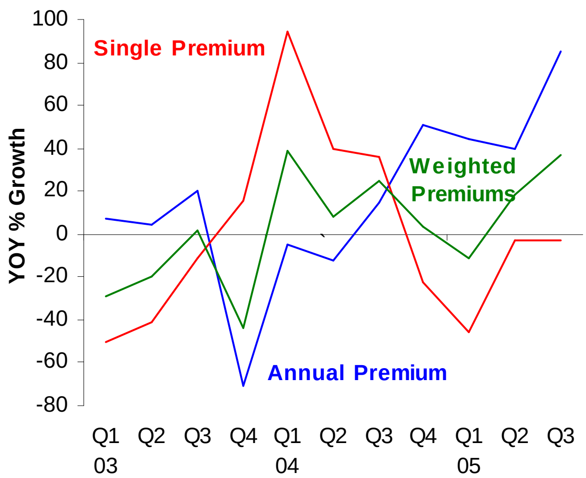
On a weighted[18] premiums basis, new business premiums grew by 15.6% to SGD1 bn for the first nine months of this year. This was attributed to the performance of new business premiums in Q3 2005, which increased over the last two quarters to SGD2 bn (Chart 3.10) or SGD 460 mn on a weighted premium basis. The increase in Q3 was mainly due to the transfer of the Dependents' Protection Scheme (DPS) from the CPF Board to the private life insurance sector. The performance also reflected the continuing growth in annual premiums by 85% YOY in Q3 2005, which more than compensated for the 3.4% contraction of single premiums in the same quarter (Chart 3.11). The flat YOY growth of single premiums between Q2 and Q3 2005 could indicate a further reversal of trend in single premiums, reflecting competition from shorter term financial products such as banks' fixed deposit accounts which are offering higher interest rates.

Chart 3.10
Life New Business Premiums (SIF)



Source: MAS

Chart 3.11
Growth of Weighted Life Premiums (SIF)



Source: MAS estimates

[18] New business premiums on a weighted basis consist of 10% single premiums and 100% regular premiums (including limited-pay regular premiums) of both individual and group policies.

Balance sheets of insurers suggest that they remain resilient to shocks arising from weaker consumer confidence

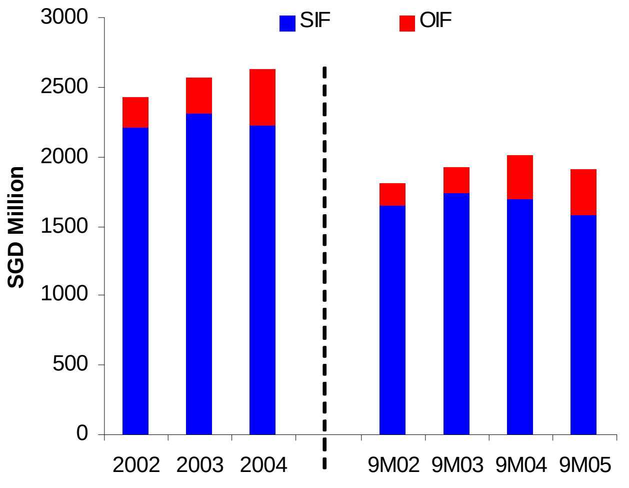
Looking ahead, the performance of the life insurance industry could be affected by weaker consumer confidence in the event of economic slowdown. Nonetheless, life insurance companies' CAR of about two times the minimum regulatory requirement as at end-2004 suggests that the sector would be resilient to shocks, as shown by our regular annual stress testing exercise based on a scenario of an economic recession[19] (Box Item C).

Singapore General Insurance

Gross premiums for first nine months of 2005 fell slightly while operating profitability improved

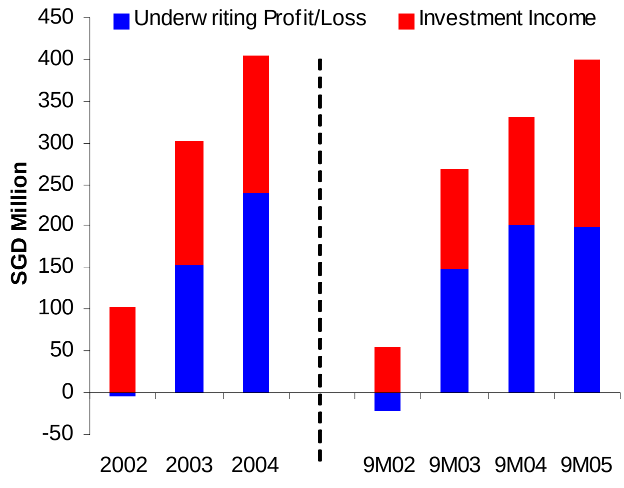
Total gross premiums written for the first nine months of 2005 fell slightly compared to the same period last year, to about SGD1.9 bn, mainly due to a decline in the Singapore Insurance Fund (SIF) (Chart 3.12). On a YOY basis, gross premiums contracted by about 7% in Q3 2005. The decline in SIF premium income since 2003 was attributable to the softening of premiums in a number of classes of business including motor and fire insurance, and the reclassification of Accident and Hospitalisation policies from general to life insurance business in 2004.

Chart 3.12
Gross Premium Level (SIF & OIF)



Source: MAS

Chart 3.13
Underwriting & Investment Income (SIF & OIF)



Source: MAS

Total operating profitability for the sector, however, continued to improve. In the first nine months of this year, operating profit grew 21% YOY to reach SGD400.7 mn (Chart 3.13). This was mainly due to the 110% YOY growth in investment income in Q3 2005. The overall

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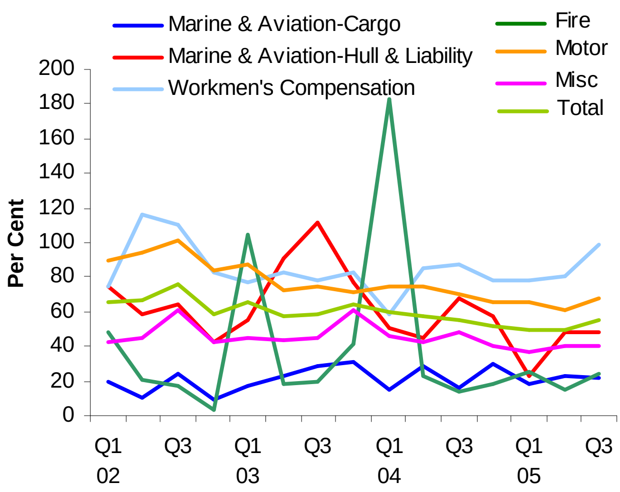
[19] The stress test on direct life insurers is carried out annually under MAS Notice 312. The stress test scenarios described in Box Item D for the catastrophic event and the economic recession are prescribed test scenarios borne out of the requirements of the exercise.

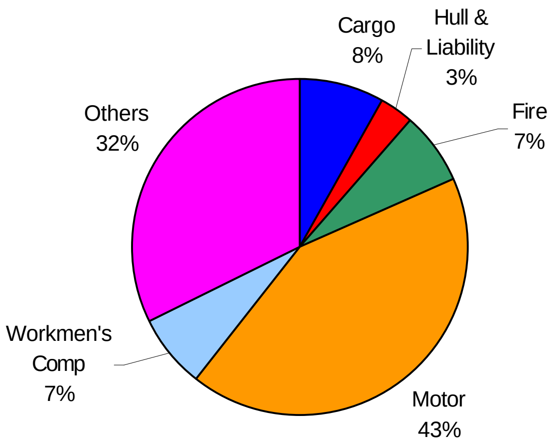
incurred loss ratios[20] for the SIF has increased from 49.8% in Q2 2005 to 54.6% in Q3 2005 (Chart 3.14). This could be attributed to the QOQ fluctuations in the Motor and Workmen's Compensation that makes up about half of the general insurer's portfolio (Chart 3.15).

Chart 3.14
Loss Ratios by Lines of Business (SIF)



Source: MAS estimates

Chart 3.15
Net Premiums by Lines of Business, Q3 2005 (SIF)



Source: MAS

Insurers' balance sheets suggest resilience to slower-than-expected economic growth and continuing competitive pressures on premium rates

Slower-than-expected economic growth could have a dampening effect on the performance of the general insurance industry. In addition, the general insurance industry could also be affected by continuing competitive pressures on premium rates. However, the sector's CAR of about two times the minimum regulatory requirement as at end-2004 suggests that the sector would remain resilient to these potential shocks.

Global and Regional Reinsurance

Outlook more uncertain with the occurrence of chain of natural catastrophes in 2005; credit downgrades of reinsurers could outnumber upgrades in the near term

In the June 2005 FSR, the outlook for the global reinsurance sector was assessed to be stable despite 2004 being a record year of catastrophic events with insurers suffering losses following a series of hurricanes, typhoons and the Boxing Day Tsunami. With the chain of catastrophes extending into 2005 with the likes of Hurricane Katrina, Rita and Wilma most recently, the global reinsurance sector has looked more uncertain. Estimated losses in the range of USD40 bn to USD60 bn make Hurricane Katrina the most costly natural disaster in the US, ahead of Hurricane Andrew in 1992 which caused some USD21 bn in insured

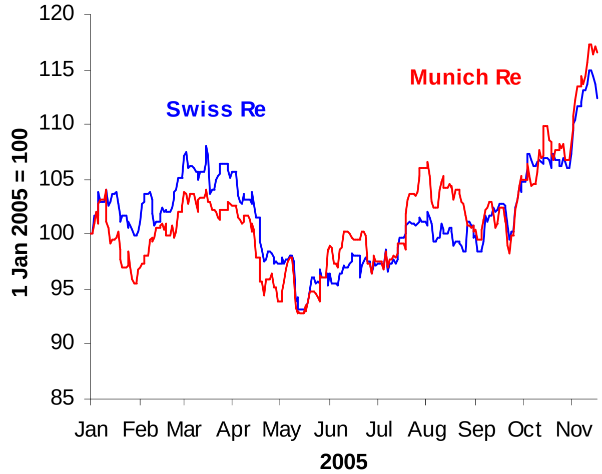
[20] Incurred loss ratio, derived by dividing the sum of incurred claims by earned premiums, represents an insurer's claims experience relative to its premiums received and is an indication of the quality of business written

losses. Recent estimates of losses for Hurricane Wilma stood at USD10 bn. These developments have caused Standard and Poor's to revise the industry's outlook from stable to negative, suggesting that credit downgrades of reinsurers could outnumber upgrades in the near term. Already, selected groups of insurance and reinsurance groups with significant exposure to these losses have been placed on credit watch negative. Among them are reinsurance groups Swiss Re and the UK's Lloyd's insurance market.

Losses on the scale of Hurricane Katrina could arrest the cyclical downward pressure on premium rates

On the other hand, losses on the scale of Hurricane Katrina are likely to instil underwriting discipline in the industry and arrest the cyclical downward pressure on premium rates during the 2006 renewals across a broad range of risks. Equity prices of the two largest reinsurers, Swiss Re and Munich Re have continued a gradual upward climb despite a brief respite at end-August arising from the occurrence of Hurricane Katrina (Chart 3.16).

Chart 3.16
Swiss Re & Munich Re Equity Prices



Source: Bloomberg

Singapore general insurers and reinsurers are not affected directly by losses arising from Hurricane Katrina; catastrophes in the region have a more direct impact

While the losses due to the recent series of catastrophes in the US, including Hurricane Katrina, continue to unfold, the general insurers and reinsurers based in Singapore are not affected directly given their limited exposure to the US risks. As most of their exposures are to the region, natural disasters in the Asian region, such as the typhoons in Korea, Japan and Taiwan, and the flood in Mumbai would have a more direct impact on the profitability of the general reinsurers in Singapore. Incurred loss ratios for general reinsurers have risen, albeit moderately, in the first three quarters of this year as compared to the previous year, in part attributable to the increased frequencies of natural disasters in the Asian region.

Box Item C
Stress Test of the Singapore Life Insurance Sector[1]

In the recent annual stress test of Singapore direct life insurers, two prescribed scenarios were considered. The first scenario consists of a catastrophic event that could adversely affect the mortality and morbidity experience of life insurers and increase the claims for the accident year from general insurance businesses exposed to natural calamities. The catastrophic event would cause a general economic slowdown with stock markets seeing sharp price contractions, a fall in new business premiums and a decrease in reinsurance recoverables (Table C1).

In the second scenario of an economic recession, stock markets see sharp price contractions, property prices collapse, new business premiums fall and terminations of policies rise sharply. In an environment of weak growth, the yield curve shifts downwards while corporate bond spreads widen. The SGD depreciates slightly against all currencies.

Table C1: Stress Test Assumptions

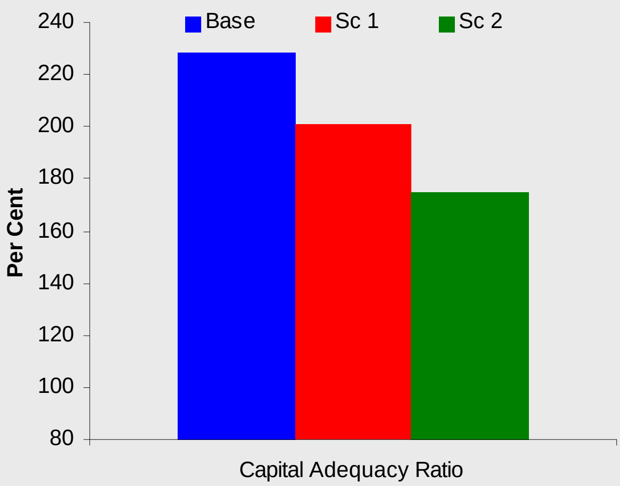
Stress Test Scenario 1 (Catastrophic Event)		Stress Test Scenario 2 (Economic Recession)	
Variables	**Scenario**	**Variables**	**Scenario**
Mortality and Morbidity Experience	+100%	**Terminations**	+200%
New Business Premiums	-20%	**New Business Premiums**	-30%
Value of Equities and Properties	-20%	**Value of Equities and Properties**	-30%
Claims for Accident Year from General Insurance Business Exposed to Natural Calamities	+100%	**Yield Curve Shift (bps change)**	-100
		Spread of Corporate Bonds (bps change)	+100
Reinsurance Recoverables	-10%		
		SGD vis-à-vis all Currencies (SGD depreciation)	-5%

The stress test assumptions applied to the assets and liabilities composition of the life insurers as at end-2004 would impact the Risk Based Capital solvency ratios[3] and net income of the sector. The stress test results showed that the life insurers' CAR and net income would be more significantly affected by the second stress test scenario. However, stress test results showed that the balance sheets of the life insurance sector would be able to absorb potential shocks in both stress test scenarios, with the life insurers still solvent and their CAR in positive territory (Chart C1). In addition, net income of life insurers fell from SGD862 mn as at end-2004 to SGD107 mn under the first scenario. While life insurers would incur losses of SGD543 mn in the second scenario (Chart C2), their financial resources of about SGD12 bn would be sufficient to cover these losses.

1/ All direct life insurers are required to perform the annual stress test exercise.
2/ Claims on life insurers resulting from death and/or diseases.
3/ Solvency ratios arising from the risk based capital framework consists of financial resources (FR) over the Total Risk Requirement (TRR) of the life insurer.

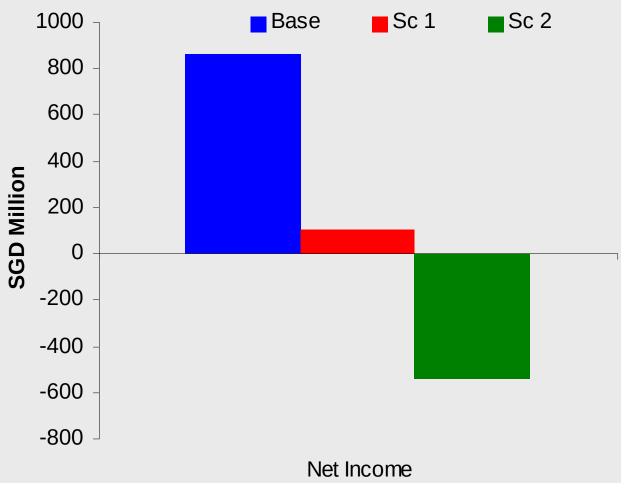
Box Item C (continued)

Chart C1
Capital Adequacy Ratio of the Singapore Life Insurance Sector



Source: MAS estimates

Chart C2
Net Income of the Singapore Life Insurance Sector



Source: MAS estimates

IV FINANCIAL INFRASTRUCTURE

Besides sound financial markets and institutions, a robust financial infrastructure is critical in ensuring the overall stability of the financial system. While financial institutions in Singapore have remained strong, the growing scope and complexity of banking businesses present challenges to supervision of these institutions. A deposit insurance scheme would help address the issue of depositor protection in the event of a bank failure, which would help instill greater confidence in Singapore's financial system. It would also dispel any public misperception of a government guarantee on all deposits, leading to greater market discipline, which is another important safeguard in maintaining financial system stability.

Deposit Insurance in Singapore

Deposit insurance would enhance depositor confidence and market discipline

MAS began a process of liberalising and opening up the domestic banking sector in 1999 to foster a more dynamic and innovative financial centre. At the same time, MAS has shifted away from one-size-fits-all regulation of financial institutions, towards a risk-focused supervisory approach to foster a banking system that is strong, innovative and able to take well-managed risks. These measures have resulted in a highly competitive domestic banking sector with a greater presence of strong foreign banks.

However, even as banks operating in Singapore remain sound, the scale, scope and complexity of banking business have grown and the operations of banks with a global presence are increasingly being influenced by factors beyond the control of the financial supervisor in any one market. While MAS' licensing, regulatory and supervisory standards aim to minimise the risk of failure, international experience has shown that the likelihood of a bank failure cannot be completely eliminated. Further, in seeking to promote and preserve stability in the financial system, MAS does not aim to prevent the failure of every financial institution. This is neither feasible nor desirable as such a regulatory regime would be too onerous, and undermine the competitiveness, innovation and enterprise of financial institutions. It would also lead to considerable moral hazard on the part of market participants and consumers.

A deposit insurance scheme provides an explicit guarantee to depositors that they will be compensated up to a maximum specified amount of their deposits in the unlikely event that the bank they placed deposits with fails. Deposit insurance will strengthen protection for small depositors who are often not in a position to assess the safety and soundness of the banks they deal with and enhance confidence in Singapore's financial system. An explicit deposit insurance scheme would also clarify the extent of protection given to depositors and dispel any public misperception of a government guarantee on all deposits. This would enhance market discipline by depositors and financial institutions, and hence contribute to the overall soundness and stability of the financial system.

Coverage under the Deposit Insurance Scheme

Deposit insurance coverage limited to SGD20,000 per depositor per institution

The Deposit Insurance Act, which establishes the deposit insurance scheme in Singapore, was passed by Parliament in September 2005. The deposit insurance scheme, which is targeted to commence on 1 April 2006, applies only to SGD deposits. It will give each depositor a guarantee of up to SGD20,000 should their bank or finance company fail.

In determining the level and extent of coverage, MAS is guided by the need to provide adequate protection for small depositors, who are often not in a position to assess the safety and soundness of the banks they deal with, as well as the need to limit costs and preserve market discipline. The coverage limit has been fixed at SGD20,000 per depositor per institution, net of the depositor's liabilities to the failed institution. MAS' survey of bank deposits has shown that the SGD20,000 coverage limit provides full coverage to the vast majority of individual depositors.

The scheme will insure core savings of individuals and charities. These are SGD deposits in standard savings, current and fixed deposit accounts in full banks and finance companies. An insured depositor's balances in all such accounts, whether in his own name, held jointly with another person or in a trust account where he is the beneficiary, will be aggregated and insured up to SGD20,000. In view of the important social role of CPF funds as core retirement savings, money held under the CPF Investment Scheme will be insured up to SGD20,000, separately from the depositor's other deposits. Deposits of businesses, investment products, foreign currency deposits, structured deposits, and deposits placed as collateral, will not be insured.

Deposit Insurance Fund

A Deposit Insurance Fund will be set up from premium contributions of the members of the scheme comprising all banks and finance companies in Singapore. The Fund will be held and managed by a Deposit Insurance Agency, which will be separately incorporated to take on the function of administering the deposit insurance scheme. Members of the scheme will be required to contribute annual premium to build up the Fund, which will be invested in safe and liquid assets such as Singapore Government Securities, deposits with MAS and other assets approved by the Minister in charge of MAS. Premium contributions will be based on the risk profiles of members so that less risky members will be charged lower premiums. The

Fund will raise a sum of about 0.3% of insured deposits (currently estimated at SGD120 mn) from banks and finance companies over ten years.

There are several advantages to levying premium contributions in advance to build up a Fund even when there are no bank failures. Firstly, it ensures a readily available pool of funds to enable prompt disbursement should compensation need to be made. Secondly, it is fairer to collect premiums before a failure as the failed bank would also have contributed to the Fund. Thirdly, it mitigates the pro-cyclical effect that may result if members are charged heavy levies during difficult times after a bank failure. Finally, collecting premiums to build up a ready Fund reinforces public confidence in the scheme and dispels the expectation of a government guarantee on deposits.

In the event that a bank or finance company fails, the Deposit Insurance Agency will make compensation payout to insured depositors from the Fund. It will then stand in the shoes of the insured depositors to claim against the assets of the failed bank for the amount of compensation that has been paid out, which will have priority over other deposit liabilities of the failed bank.

Foreign full banks which operate as branches here will be required to maintain a minimum level of Singapore-domiciled assets of at least 100% of their insured deposits. The asset maintenance requirement, together with insured deposit priority, will strengthen the recovery by the Fund from the failed bank for the amount of compensation paid to insured depositors. This lowers the necessary size of the Fund and hence the costs of deposit insurance.

Statistical Appendices

SINGAPORE NON-FINANCIAL SECTOR

Table A.1: Corporate Sector: Return on Assets (Median)

Table A.2: Corporate Sector: Current Ratio (Median)

Table A.3: Corporate Sector: Total Debt/Equity (Median)

Table A.4: Corporate Sector: Interest Cover Ratio (Median)

Table A.5: Household Sector

SINGAPORE FINANCIAL INSTITUTIONS

Table B.1: Banking Sector Financial Soundness Indicators

Table B.2: Local Banks' Selected Financial Soundness Indicators

Table B.3: Life Direct Insurers: Total New Business Gross Premiums

Table B.4: Life Direct Insurers: Assets Distribution of Singapore Insurance Fund (Non-Linked Assets)

Table B.5: General Direct Insurers: Gross Premiums

Table B.6: General Direct Insurers: Composition of Net Premiums of Singapore Insurance Fund

Table B.7: General Direct Insurers: Incurred Loss Ratio of Singapore Insurance Fund

SINGAPORE NON-FINANCIAL SECTOR

Table A.1: Corporate Sector: Return on Assets (Median)

	FY2001	FY2002	FY2003	FY2004	Q2 2004	Q4 2004	Q2 2005
				Per Cent			
Commerce	2.5	3.1	4.2	6.4	4.3	6.5	5.7
Construction	-4.2	0.9	0.0	0.3	-1.0	-1.5	-1.7
Hotels & Restaurants	1.6	1.3	1.9	4.7	3.0	5.0	5.1
Manufacturing	3.2	3.6	5.4	6.5	4.6	6.6	5.8
Multi-Industry	1.2	1.6	2.8	3.4	2.4	3.5	4.4
Property	1.4	2.2	2.5	3.4	2.4	3.4	4.0
Transport, Storage & Communications	5.8	5.1	6.0	10.0	7.2	10.5	11.1

Source: Thomson Financial

Table A.2: Corporate Sector: Current Ratio (Median)

	FY2001	FY2002	FY2003	FY2004	Q2 2004	Q4 2004	Q2 2005
				Ratio			
Commerce	1.5	1.5	1.7	1.8	1.7	1.8	1.8
Construction	1.3	1.1	1.2	1.3	1.2	1.3	1.3
Hotels & Restaurants	1.2	1.6	1.7	2.0	1.5	2.0	2.1
Manufacturing	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Multi-Industry	1.3	1.2	1.5	1.2	1.3	1.2	1.3
Property	1.5	1.6	1.6	1.6	1.7	1.6	1.7
Transport, Storage & Communications	1.4	1.1	1.1	1.2	1.1	1.2	1.1

Source: Thomson Financial

Table A.3: Corporate Sector: Total Debt/Equity (Median)

	FY2001	FY2002	FY2003	FY2004	Q2 2004	Q4 2004	Q2 2005
				Ratio			
Commerce	40.8	52.7	40.2	41.0	46.8	41.0	40.7
Construction	69.3	49.7	43.7	28.2	45.8	28.2	18.8
Hotels & Restaurants	14.2	21.3	25.5	27.4	25.5	27.4	25.5
Manufacturing	29.8	28.4	28.1	24.1	27.4	25.2	30.6
Multi-Industry	75.8	63.7	48.4	56.4	54.6	60.8	53.3
Property	86.4	61.9	56.5	71.8	58.3	80.4	72.1
Transport, Storage & Communications	38.6	37.7	38.8	50.3	53.5	50.1	56.6

Source: Thomson Financial

Table A.4: Corporate Sector: Interest Cover Ratio (Median)

	FY2001	FY2002	FY2003	FY2004	Q2 2004	Q4 2004	Q2 2005
Ratio							
Commerce	3.6	6.0	7.8	10.1	9.2	9.7	8.2
Construction	1.5	3.4	0.6	2.7	2.4	2.0	4.0
Hotels and Restaurants	5.0	5.8	9.6	8.8	8.7	8.1	10.0
Manufacturing	9.2	11.8	15.0	18.9	16.7	17.8	12.9
Multi-Industry	3.0	4.9	5.0	9.1	10.6	6.0	12.8
Property	2.3	3.4	5.9	3.9	5.9	5.1	4.7
Transport, Storage & Communications	9.1	14.4	13.9	17.2	17.7	17.4	20.1

Source: Thomson Financial

Table A.5: Household Sector

	2001	2002	2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005
Per Cent (unless otherwise stated)											
Household Assets (SGD bn)	676.2	697.9	762.1	n.a.	762.1	788.9	799.4	814.4	829.1	846.4	852.6
Household Residential Property Assets as % of Total Assets	51.3	50.1	47.7	n.a.	47.7	46.8	46.8	46.0	45.7	44.7	43.9
Household Liabilities (SGD bn)	143.1	146.3	152.8	n.a.	152.8	152.9	153.9	155.2	155.7	155.8	156.0
Household Liabilities to Assets Ratio	21.2	21.0	20.0	n.a.	20.0	19.4	19.2	19.1	18.8	18.4	18.3
Household Liabilities as % of GDP	93.3	93.9	96.0	n.a.	96.0	92.2	89.8	88.8	86.2	85.6	84.0
URA Residential Property Price Index	117.2	115.1	112.8	112.9	112.8	112.4	112.5	112.9	113.8	114.6	115.2

Source: MAS estimates, Ministry of National Development, Urban Redevelopment Authority and Singapore Department of Statistics

SINGAPORE FINANCIAL INSTITUTIONS

Table B.1: Banking Sector Financial Soundness Indicators

	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
Loan Concentrations (% of Total Commercial Bank Loans)									
Bank Loans	64.8	65.8	67.1	66.2	65.6	66.0	65.4	65.1	65.4
Non-Bank Loans	35.2	34.2	32.9	33.8	34.4	34.0	34.6	34.9	34.6
Loans through the Asian Dollar Market (% of Total Commercial Bank Loans)									
Total ADM Loans	72.3	72.8	71.9	72.3	72.7	72.6	71.5	71.7	73.1
Of which to (% of Total Asian Dollar Market Loans):									
United Kingdom	15.9	16.8	17.6	17.3	18.7	20.2	20.3	19.5	16.6
Japan	26.2	23.5	22.7	22.6	21.2	19.3	17.3	18.1	20.8
Hong Kong	7.1	6.6	6.7	7.5	8.2	9.0	8.6	8.5	7.8
USA	5.3	6.6	6.3	4.8	5.6	6.3	5.6	6.3	5.5
Switzerland	4.1	4.5	5.3	5.7	4.8	5.6	6.2	5.7	6.2
Banks	79.6	80.8	81.2	80.4	80.1	80.0	79.2	78.3	78.4
Non-Bank	20.4	19.2	18.8	19.6	19.9	20.0	20.8	21.7	21.6
Loans through Domestic Banking Units (% of Total Commercial Bank Loans)									
Total DBU Loans	27.7	27.2	28.1	27.7	27.3	27.4	28.5	28.3	26.9
Of which to (% of Total DBU Loans):									
Manufacturing	4.7	4.6	4.1	4.1	4.2	3.9	3.9	3.9	3.9
Building & Construction	10.6	10.4	9.5	9.6	9.6	9.4	8.9	8.8	8.9
Housing	21.8	22.7	21.6	22.5	23.9	23.4	23.4	23.2	23.7
Professionals & Private Individuals	14.0	14.2	12.9	13.1	13.3	13.0	12.6	12.4	12.7
Non-Bank Financial Institutions	9.6	9.4	8.8	8.5	8.7	8.8	8.4	7.9	8.0
Banks	26.2	25.5	30.8	29.3	26.9	28.8	30.9	31.4	30.1
Profitability (Per Cent)									
DBU Net Interest Income to Total DBU Loans	2.60	2.48	2.30	2.32	2.38	2.42	2.35	2.32	2.38
Liquidity (Per Cent)									
Liquid DBU Assets to Total DBU Assets	12.5	12.5	12.4	11.6	12.0	11.4	11.1	11.4	11.4
Liquid DBU Assets to Total DBU Liabilities	13.8	13.8	13.7	12.8	13.2	12.5	12.4	12.6	12.5
All DBU Loans to All DBU Deposits	98.7	98.1	101.8	100.6	98.3	100.8	98.8	98.8	95.9
DBU Non-bank Loans to DBU Non-Bank Deposits	90.4	88.3	85.9	85.7	88.2	86.9	84.3	83.4	82.1
DBU Non-Bank Loan Growth (YOY)	3.5	6.3	7.6	5.8	6.0	4.5	2.7	2.6	1.9
DBU Non-Bank Deposit Growth (YOY)	4.2	7.8	9.5	9.7	8.6	6.1	4.6	5.5	9.5

Source: MAS

* Data relates to all commercial banks, Singapore operations only.

Table B.2: Local Banks' Selected Financial Soundness Indicators

	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
Capital Adequacy (Per Cent)									
Regulatory Capital to Risk-Weighted Assets	15.9	16.0	16.7	15.5	16.3	16.1	15.9	14.8	15.3
Regulatory Tier I Capital to Risk-Weighted Assets	11.7	12.0	11.9	12.3	11.8	11.4	11.5	10.4	10.9
Shareholders' Funds to Total Assets	10.6	10.7	10.3	10.1	10.0	9.7	10.1	9.8	10.0
Asset Quality (Per Cent)									
NPLs to Non-Bank Loans	7.0	6.7	6.2	5.5	5.4	5.0	4.6	4.2	4.0
NPLs to Regulatory Capital	37.1	34.8	29.9	28.1	26.7	23.9	22.1	21.8	19.4
NPLs Net of Specific Provisions to Regulatory Capital	23.3	22.2	18.8	17.5	16.0	14.1	12.8	12.6	11.4
Total Provisions to NPLs	64.4	64.9	67.8	71.5	72.8	76.6	77.7	78.9	80.0
Specific Provisions to NPLs	37.0	36.2	37.1	37.6	40.0	41.3	41.9	41.9	41.2
Loan Concentrations (% of Total Loans)									
Bank Loans	25.4	24.0	23.9	22.0	23.2	24.3	25.7	22.1	22.8
Non-Bank loans	74.6	76.0	76.1	78.0	76.8	75.7	74.3	77.9	77.2
Of which to (% of Total Loans):									
Manufacturing	6.6	6.5	6.7	6.7	7.3	7.3	7.2	7.7	7.7
Building & Construction	9.7	9.4	9.3	9.4	8.6	8.4	8.9	9.1	8.9
Housing	21.1	22.2	22.5	23.1	22.6	22.5	22.3	22.6	22.3
Professionals & Private Individuals	10.5	10.4	10.5	10.3	10.1	10.1	9.8	9.9	9.7
Non-Bank Financial Institutions	10.0	10.2	9.6	10.6	10.2	9.8	9.2	10.0	9.7
Profitability (Per Cent)									
ROA (Simple Average)	1.11	1.12	1.19	1.21	1.16	1.04	1.13	1.12	1.24
ROE (Simple Average)	10.1	10.1	11.2	11.5	10.5	9.6	10.8	11.0	12.1
Net Interest Margin (Simple Average)	1.93	2.01	1.95	1.95	1.92	1.91	1.87	1.86	1.88
Non-Interest Income to Total Income	41.0	37.5	41.6	47.4	41.2	38.7	39.2	38.1	37.5

Source: Local Banks

Table B.3: Life Direct Insurers: Total New Business Gross Premiums

	2002	2003	2004	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
Year-on-Year % Change											
Policies	55.2	-55.3	10.6	-81.0	17.2	8.8	5.5	4.2	-6.4	-2.8	829.1
Annual Premiums	50.9	-27.2	10.0	-70.8	-5.2	-12.2	14.7	50.7	43.7	39.6	85.0
Single Premiums	-33.6	-22.4	31.7	16.0	94.2	39.6	35.8	-22.6	-46.1	-3.2	-3.4
Sum Insured	-12.5	-7.1	21.0	4.4	8.3	-2.4	41.1	32.3	30.1	61.7	533.2

Source: MAS

Table B.4: Life Direct Insurers: Assets Distribution of Singapore Insurance Fund (Non-Linked Assets)

	2002	2003	2004	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
SGD Million (% of Total Assets)											
Debt Securities	25,025 (54.6)	29,309 (55.8)	35,439 (60.3)	29,576 (56.5)	30,814 (57.1)	32,750 (59.0)	34,618 (59.9)	35,460 (60.3)	38,612 (60.1)	40,478 (60.9)	41,787 (61.0)
Equity Shares	8,573 (18.7)	11,367 (21.7)	11,640 (19.8)	10,955 (20.9)	11,119 (20.6)	11,000 (19.8)	11,224 (19.4)	11,414 (19.4)	14,002 (21.8)	14,616 (22.0)	15,008 (21.9)
Cash & Deposits	4,267 (9.3)	4,161 (7.9)	4,625 (7.9)	4,190 (8.0)	4,641 (8.6)	4,477 (8.1)	4,564 (7.9)	4,611 (7.8)	4,114 (6.4)	3,861 (5.8)	3,998 (5.8)
Loans	4,450 (9.7)	4,024 (7.7)	3,685 (6.3)	4,018 (7.7)	3,923 (7.3)	3,874 (7.0)	3,783 (6.5)	3,686 (6.3)	3,559 (5.5)	3,480 (5.2)	3,487 (5.1)
Land & Buildings	2,354 (5.1)	2,344 (4.5)	2,188 (3.7)	2,344 (4.5)	2,350 (4.4)	2,198 (4.0)	2,211 (3.8)	2,172 (3.7)	2,057 (3.2)	2,023 (3.0)	1,997 (2.9)
Other Assets	1,137 (2.5)	1,292 (2.5)	1,241 (2.1)	1,290 (2.5)	1,125 (2.1)	1,218 (2.2)	1,393 (2.4)	1,437 (2.4)	1,886 (2.9)	2,012 (3.0)	2,248 (3.3)
Total Assets	45,806 (100.0)	52,498 (100.0)	58,818 (100.0)	52,372 (100.0)	53,972 (100.0)	55,518 (100.0)	57,795 (100.0)	58,780 (100.0)	64,230 (100.0)	66,470 (100.0)	68,525 (100.0)

Source: MAS

Table B.5: General Direct Insurers: Gross Premiums

	2002	2003	2004	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
SGD Million											
Total Operations	2,487.6	2,669.2	2,568.9	639.5	782.9	616.9	610.2	613.7	756.7	580.1	567.6
SIF	2,230.9	2,344.2	2,151.3	578.4	668.1	521.0	505.5	533.9	622.1	482.4	472.5
OIF	256.7	325.0	417.6	61.1	114.8	95.9	104.8	79.8	134.6	97.6	95.1

Source: MAS

Table B.6: General Direct Insurers: Composition of Net Premiums of Singapore Insurance Fund

	2002	2003	2004	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
SGD Million											
Marine & Aviation											
- Cargo	84.0	94.1	105.4	23.2	27.2	25.7	29.6	26.0	30.3	26.4	29.4
- Hull & Liability	39.8	42.5	47.6	14.4	14.1	5.4	13.3	14.7	17.3	6.9	12.1
Fire	101.8	100.5	99.4	20.6	29.5	25.4	24.7	21.8	41.6	30.9	25.9
Motor	571.0	646.0	627.5	152.5	175.0	162.8	148.2	149.5	189.1	161.4	155.0
Workmen's Compensation	117.6	133.0	129.2	24.4	47.5	32.3	28.2	24.2	56.5	34.9	26.8
Miscellaneous	485.6	530.3	422.1	114.1	151.6	94.3	111.9	110.9	153.4	126.2	118.0
Total	1,399.8	1,546.4	1,431.1	349.2	444.8	346.0	355.7	347.1	488.2	386.6	367.2

Source: MAS

Table B.7: General Direct Insurers: Incurred Loss Ratio of Singapore Insurance Fund

	2002	2003	2004	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005
Marine & Aviation											
- Cargo	18.6	23.9	22.7	31.3	15.2	28.5	16.4	30.3	18.6	22.6	21.8
- Hull & Liability	45.5	95.0	53.0	76.6	50.4	44.6	67.6	57.5	22.8	48.5	48.4
Fire	21.3	30.5	28.7	41.5	183.3	23.5	13.4	17.9	25.7	14.6	23.9
Motor	91.2	80.5	70.3	70.7	74.8	74.2	70.6	65.9	65.5	60.6	67.9
Workmens' Compensation	100.7	83.0	82.5	83.2	58.4	85.1	87.0	77.8	78.4	80.3	99.1
Miscellaneous	48.7	42.9	42.4	61.2	46.1	42.5	47.9	40.3	37.0	40.1	39.9
Total	66.2	61.5	55.7	64.3	59.7	57.9	55.6	51.8	49.9	49.8	54.6

Source: MAS