Ministerial Statement by Mr Lim Hng Kiang Minister for Trade and Industry and Deputy Chairman, Monetary Authority of Singapore on Government Guarantee on Deposits

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Singapore Remains Stable and Sound

The global economy is slowing and the international financial system is still under significant stress. Amidst the current turmoil, the financial system in Singapore remains stable and robust. Financial institutions in Singapore continue to be sound and to operate normally. Our local banks and finance companies are financially strong and well-capitalised. They have capital adequacy ratios of over 12% and their capital ratios are in excess of international standards. Foreign banks in Singapore are subject to strict licensing and admission criteria, and are required to maintain minimum capital adequacy and liquidity standards. Even when looking at the major events in the region, all financial institutions in Singapore do not face funding difficulties in the interbank market. Public confidence remains high, and we have not had to take extraordinary measures.

Why the Need for Government Guarantee

2. Nevertheless, the Government has carefully assessed the international situation and its implications for Singapore. The guarantee by the Singapore Government on the deposits in central banks over the last few weeks in Europe and the US to recapitalise banks, purchase bad assets and guarantee bank borrowings in the wholesale markets have improved confidence in the international financial system, even though there remain significant problem spots and stresses. However, the announcement in the past week by a few jurisdictions in our region of blanket government guarantees on all bank deposits could potentially have a more direct impact on Singapore. Last Thursday the Singapore Government announced a guarantee on deposits of individuals and non-bank customers with banks, finance companies and merchant banks in Singapore until 31 December 2010. We have decided that such a guarantee is necessary for the following reasons:

3. First, the guarantee ensures a level international playing field for banks in Singapore. The recent announcements in the region of blanket government guarantees on deposits set off a dynamic that puts pressure on other jurisdictions to respond or else risk disadvantaging and potentially weakening their own financial institutions and financial stability. Singapore had no intention to do that, but it appears elsewhere that some governments will now agree to a guarantee on deposits.

4. Second, the guarantee bolsters the confidence that the public has in Singapore’s financial system. It provides certainty to Singaporeans and business in Singapore that their deposits are safe. The guarantee appears to reflect the government’s confidence in the soundness of the Singapore financial system.

5. Third, financial services are an important pillar of Singapore’s economy, accounting for 12% of GDP and 5% of Singapore’s employment. Beyond this substantial direct contribution to GDP, the financial sector plays a critical role in maintaining investor and public confidence in the international environment, notwithstanding that in Singapore our institutions are fundamentally sound.

6. Fourth, this financial crisis is not confined to any country or region, but is a global one. Singapore’s guarantee of deposits demonstrates our confidence in the soundness of our financial system, and helps contribute towards restoring confidence in the international financial system.

Why the Guarantee is Sufficient and Prudent

7. The deposits of individuals and non-bank customers with banks, finance companies and merchant banks in Singapore amount to about S$150 billion. In view of MAS’ stringent regulations and close supervision of financial institutions in Singapore, in the event of a bank failure in Singapore, we can expect the depositors’ losses to be insignificant, to safeguard our currency if this should prove necessary. We are using our reserves to back this guarantee. In the event of a payout, past reserves may be drawn upon. The S$150 billion does not impair our ability to meet all government obligations and will not jeopardise Singapore’s financial standing.

8. Let me explain. First, the likelihood of a bank failure as a result of problems in Singapore is small as our banking system is sound and closely supervised, even though it is possible that problems elsewhere will a

9. Second, even if a bank were to fail here, it should still have substantial assets to meet its liabilities to depositors. Under the law non-bank depositors enjoy priority in being paid, ahead of other unsecured creditors. This makes it more likely that any failure here would not result in a systemic shock to the banking system. Hence, for the guarantee to be called, two things have to happen: a bank has to fail, and at the same time its assets must be worth so little that there is not even enough to repay its depositors. Even then the draw on the guarantee should only be for the shortfall, which does not exceed a fraction of the deposits outstanding.

10. Hence we have calculated that the S$150 billion backing is an amount that will be ample to meet any eventuality that may arise. Even if the depositors’ losses are substantial, they will still be protected to the extent of reserves sufficient to meet their claims. Hence, such a guarantee is sufficient and prudent.

11. Singapore is in a good financial position to provide this guarantee because of the fiscal discipline of successive administrations and the commitment of the people. Singapore is in good standing in international financial markets. The deposits of individuals and non-bank customers with banks, finance companies and merchant banks in Singapore amount to about S$700 billion. In view of MAS’ stringent regulations and close supervision of financial institutions in Singapore, in the event of a bank failure in Singapore, we can expect the depositors’ losses to be insignificant, to safeguard our currency if this should prove necessary. We are using our reserves to back this guarantee. In the event of a payout, past reserves may be drawn upon. The S$150 billion does not impair our ability to meet all government obligations and will not jeopardise Singapore’s financial standing.

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