SINGAPORE

Singapore has continued its strong recovery from the recession of 1998. Sound macroeconomic management, successful promotion of new technology industries, strong demand for exports, and continued capital inflows have helped the country achieve a high growth rate so far this year.

Economic Indicator (percent)	1997	1998	1999	2000	2001
GDP growth	8.4	0.4	5.4	8.0	6.0
Inflation rate	2.0	-0.3	0.4	1.5	2.0
Current account/GDP	17.9	25.4	25.3	22.6	19.7

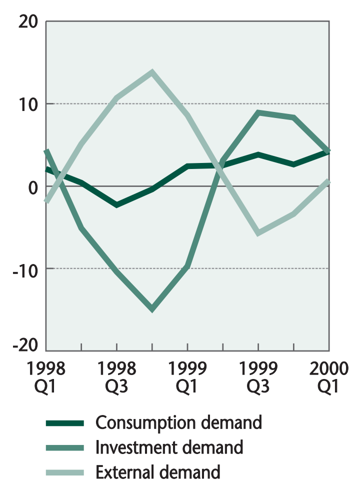
Economic Assessment. Singapore's economy continued to grow strongly during the first half of 2000: in the first quarter, it expanded at a real rate of 9.8 percent compared with the same period of 1999. Growth slowed in the second quarter, to a still healthy 8 percent, and is expected to slow further in the second half of 2000. The sectors leading the expansion are wholesale and retail trade, manufacturing, and transport and communications. The most active subsector in manufacturing was electronics, which grew by 24 percent in the second quarter. Hotels and restaurants and related sectors showed renewed growth during the first half of 2000. Sectors that continued to lag behind included construction, other goods industries, and financial and business services. In general, growth has been more broad based this year than in 1999.

Private consumption is expected to increase by 6.4 percent year-on-year in 2000, up from growth of 5.0 percent in 1999, reflecting the generally high level of consumer confidence in the country. Public consumption in 2000 is expected to grow at a slightly higher rate (6.5 percent) than private consumption. Although tax revenues rose strongly in the first half of the year, the Government ran a fiscal deficit equivalent to 4.5 percent of GDP in the first quarter. Revenues are expected to be higher in the second quarter, and by year-end, the Government is expected to have a fiscal surplus equal to 2.6 percent of GDP.

Other indicators that the economy has improved its competitive position and will continue to grow at a high rate include rising productivity, which averaged 5.8 percent in 1999, and decreased unit labor costs, which fell by 10.2 percent the same year. The rate of unemployment remains low (below 4 percent) and has declined slightly from 1999 levels. Some indicators point to increasing inflationary pressures, particularly for Singapore producers. After an inflation rate of 0.4 percent in 1999, a rise of 1.0 percent during the first half of 2000 suggests a rising trend. Average nominal wages grew by 5.9 percent and by 8.1 percent during the fourth quarter of 1999 and first quarter of 2000, respectively. Prices of residential properties are recovering, but those of non-residential properties remain sluggish.

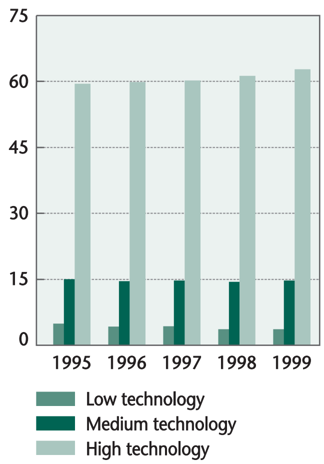
The Monetary Authority of Singapore (MAS) has continued the relaxed monetary policy it has pursued since 1998. The prime lending rate was increased by only half a percentage point in 1999 and was held steady

Decomposition of GDP Growth by Quarter (percent)



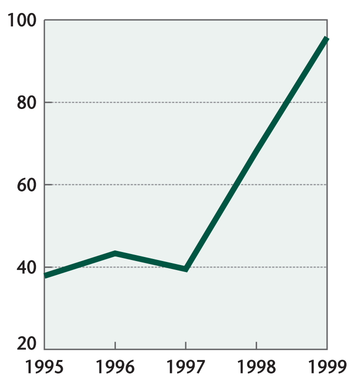
during the first half of 2000. The MAS has generally pursued a "hands-off" policy toward interest rates, allowing them to be market-determined, but has occasionally intervened behind the scenes to influence short-term fluctuations. The MAS has also adopted a broadly neutral stance with respect to the exchange rate, acting only occasionally to support the Singapore dollar when its value was eroded by devaluation of other Asian currencies. During the first half of the year, the local currency traded in a range of 1.67–1.73 to the US dollar, depreciating by about 3.3 percent over this period. Foreign exchange reserves increased moderately in the first half of 2000, from $74.4 billion to $77.7 billion. Exports, which suffered during the Asian financial crisis, grew by 23.6 percent and by 17.2 percent in the first and second quarters of 2000 compared with the corresponding quarters of 1999, while imports increased by 24.7 percent and by 22.3 percent in these quarters. The current account remained in surplus during the first half of 2000, equivalent to 25.1 percent of GDP in the first quarter and 24 percent of GDP in the second quarter.

Technology Exports as Share of Total (percent)



Structural Issues. Measures undertaken in 1998 to stimulate private investment and growth during the Asian financial crisis have been maintained despite the economic upturn. Efforts to improve the business environment and to divest government holdings in companies moved forward in 2000. Sales of government interests in transport companies (airline and metropolitan rail) were initiated, while preparations to reduce state interests in leading enterprises in other sectors progressed. However, government holdings in private companies are unlikely to be markedly reduced in the near term. Restrictions on foreign investments are being relaxed, most notably in communications, media, insurance, and banking, which should enable foreign companies to enter these areas. The Government continues to invest selectively in priority areas such as information technology infrastructure, biotechnology, and worker training. This is to encourage the economy's transition from a base for manufactured exports to a fully networked, knowledge-intensive economy and a hub for Asian finance, information technology, and transport.

Ratio of Reserves to Short-Term External Debt (percent)



Forecast. Singapore's economy is fundamentally strong; the Government's chief challenge is to continue the policies that support growth while ensuring that the economy does not overheat. The near-term outlook for the economy is positive and points toward strong growth. GDP is expected to increase by 8 percent over the whole of 2000, and by 6 percent in 2001. The country's trade surplus is projected to increase by $9.6 billion in 2000, and by $5.1 billion in 2001. The year-end current account balance is expected to be 22.6 percent of GDP in 2000 and 19.7 percent in 2001. The Government is expected to run a fiscal surplus equivalent to 3.4 percent of GDP in 2001. The level of economic growth will depend upon the overall global economic climate, particularly the continued recovery of the crisis-affected Asian countries. Policy makers also face longer-term issues, including overcoming shortages of skilled workers and the related increasing wage gap between skilled and unskilled workers.