SINGAPORE

With continued worsening of the global economy, domestic economic weakness will likely persist in the second half of 2001, resulting in a considerably worse full-year economic performance compared to both 2000 and earlier expectations for 2001. Given the magnitude of the external slowdown, the Government's fiscal stimulus measures and the neutral exchange rate policy will help tide over the economy but not reverse the downturn.

Economic Indicator (percent)	1998	1999	2000	2001		2002	
				Current	*ADO 2001*	Current	*ADO 2001*
GDP growth	0.1	5.9	9.9	-3.0	5.0	1.0	6.0
Inflation rate	-0.3	0.1	1.3	1.1	1.5	0.5	2.0
Current account/GDP	24.8	25.9	23.6	24.0	24.0	22.5	25.0

Economic Assessment. Given its dependence on external demand, the economy was hard hit by the deeper than expected global slowdown and electronics slump. Year-on-year GDP growth slipped to 1.9 percent in the first half of 2001, from 9.9 percent in 2000. The severity of this drop is revealed by the seasonally adjusted second quarter contraction of an annualized 10.7 percent, following a 10.8 percent decline in the first quarter.

With a sharp downturn in global demand for electronics, the manufacturing sector slowed markedly. Manufacturing production fell by 3.5 percent during the first six months of 2001 from a year earlier, following eight consecutive quarters of expansion averaging 14.3 percent, year on year. The commerce sector decelerated sharply across all segments, to register a year-on-year contraction of 3.3 percent in the first half of 2001 compared to a 14.3 percent increase in 2000. The slowdown was broad based, on account of a fall in tourist arrivals and slower entrepôt trade and retail sales. Growth in transport and communications moderated to 3.7 percent, despite the liberalization of the telecommunications industry. The finance sector grew at a slower pace of 2.5 percent over the period, reflecting weakness in a stock market hit by the sharp correction in global technology stocks. The construction sector, however, showed a year-on-year 0.9 percent increase, after 10 quarters of contraction. The improvement was based on the growth in civil engineering work and nonresidential public sector projects.

Amid deteriorating economic prospects, domestic demand contracted by 3.4 percent in the first half of 2001 over the corresponding period of 2000. Private consumption declined to 5.1 percent year-on-year growth during the first half of the year, as slower income growth and weaker asset markets took their toll. Gross fixed capital formation slowed to 4.1 percent year-on-year growth in the first two quarters, with an increase of 19.6 percent in public investment partially offset by a 13.7 percent decline in machinery and equipment acquisitions, as well as nonresidential buildings. In tandem with weakening demand, inventories slipped by 6.7 percent in the first half of the year compared to the first half of 2000.

On the trade front, total year-on-year export growth slowed sharply to an average of 4.1 percent in the first two quarters of 2001, from 22.4 percent in 2000. Non-oil exports, the key segment that accounts for 44.5 percent of exports, recorded a steep year-on-year decline of 9.4 percent in the second quarter, following a 3.6 increase in the first quarter and double-digit growth in 2000. The contraction was largely attributable to the weakness in electronics exports, which dipped by 8.9 percent in the first half of this year. Nonelectronics exports also contracted, declining by 1.6 percent in the second quarter of 2001, as slower regional expansion began to affect sales of petrochemical products and some machinery items. As a result of reduced demand for consumer goods and manufacturing inputs, total imports grew at a marginal rate of 0.7 percent in the first half of 2001, down from 23.5 percent growth in 2000. Taken together, the surplus of trade in goods rose to S$12.2 billion in the first two quarters of 2001 from S$8.5 billion in the same period of the previous year, with weaker exports counterbalanced by a more acute slowdown in imports. This was accompanied by a slightly reduced surplus of trade in services of S$4.4 billion. Thus, the current account surplus widened marginally to S$20.0 billion in the first half of 2001, equivalent to 25.7 percent of GDP.

Against the backdrop of slowing economic growth, the seasonally adjusted unemployment rate edged up to 2.6 percent in the second quarter of 2001, from 2.4 percent in the previous quarter. The demand for labor weakened sharply, with manufacturing and construction shedding 12,347 workers in the first two quarters and employment creation in services falling by more than half from the first quarter to 12,321 in the second. Consumer price inflation in the third quarter moderated to 0.5 percent year on year from 2.0 percent in the fourth quarter of 2000, due to subdued consumer demand and more stable oil prices.

In the financial markets, the Singapore dollar depreciated by 2.9 percent against the US dollar during the first three quarters of 2001, affected by the persistent weakness in regional currencies and ongoing US dollar demand to fund mergers and acquisitions in the banking sector. It nevertheless strengthened against many currencies in the region. Domestic interest rates trended downward, on the back of global monetary easing, the absence of inflationary pressures, and the sagging economy. The local stock market was volatile. Despite interest rate cuts by the US Federal Reserve, the Straits Times Index fell amid concerns over the extended slowdown in the global technology sector, to 1,421 by 15 October 2001, or 25.1 percent lower than at the start of the year.

External demand has fallen sharply for three quarters

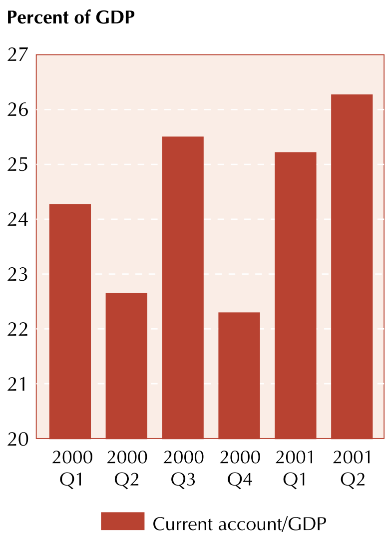
Contribution of demand to GDP growth

Source: www.mti.gov.sg

Economic Management Issues. As the global downturn became deeper and more protracted, in July 2001 the Government announced modest business cost-cutting and expenditure pump-priming measures. The off-budget measures, amounting to S$2.2 billion, included postponing scheduled increases in employers' contributions to the pension fund and foreign worker levies, extending property tax and rental rebates, and accelerating expenditure on infrastructure projects and retraining schemes for retrenched workers.

Further, in October, a more substantial off-budget stimulus of S$11.3 billion was introduced. The key features of the package were tax rebates and fee reductions for businesses and households, infrastructure spending increases, New Singapore Shares (providing a guaranteed investment return and a bonus tied to the economy's GDP growth), and employment assistance programs. Taken together, the two packages add up to 8.4 percent of GDP, and are estimated to result in a government budget deficit of S$4.0 billion in 2001. Nevertheless, given the severe global slowdown that will weigh on the economy, the measures will help it tide over but cannot by themselves reverse the downfall.

The current account surplus widened marginally to around 26 percent of GDP in the first half of 2001



Source: www.mti.gov.sg

The Monetary Authority of Singapore refocused its monetary policy in July 2001, from a tightening stance on a trade-weighted basis that sought to achieve a gradual and modest appreciation of the Singapore dollar and contain inflation, to a neutral stance. Furthermore, the policy band was widened in October to permit greater flexibility in managing the exchange rate. However, an increase in the nominal trade-weighted exchange rate, coupled with a rise in unit labor costs, led to a persistent appreciation in the real exchange rate over the first half of 2001. The terms of trade for machinery and transport equipment had been on a declining trend throughout the previous two years. With a deteriorating outlook for exports, further policy intervention to dampen the (trade-weighted) strengthening of the currency might be needed.

Forecast. With the worsening external environment, real GDP is expected to contract by 3.0 percent in 2001. The manufacture and export of electronics, the main drivers of economic growth in the past, are projected to decline further in the second half of the year, reflecting persistent weakness in global electronics demand. The slowdown in export growth will also feed through via lower freight and tourism incomes, as the region is hit by deteriorating world trade growth and the collapse in confidence in the global transport industry following the 11 September attacks on the US. Private consumption is expected to decline from the third quarter of the year, as consumer sentiment further weakens and labor continues to be retrenched. Gross fixed investment is expected to fall along with adjustments in inventories and lower investment in the ICT-related export sectors. The current account surplus will likely remain high for the whole of 2001. Given weak demand for imports, an increase in the trade surplus in goods will counterbalance a decline in services exports. Prices will be subdued in both the rest of 2001 and in 2002, reflecting lower regional inflation and slower domestic wages growth.

On expectations of a modest global electronics upturn, a weak economic rebound of 1.0 percent in 2002 is projected, supported by a gradual recovery in exports. Under the assumption of an improved external environment and strengthened import demand, the trade surplus will narrow, resulting in a decline in the current account surplus in 2002. Past investments in capacity expansion of the manufacturing and transport sectors will allow the economy to capitalize fully on the anticipated global recovery in 2002.