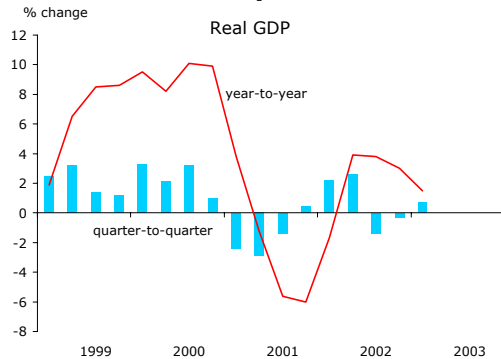


Singapore : Guarded optimism as country removed from SARS list

1. Economic activity

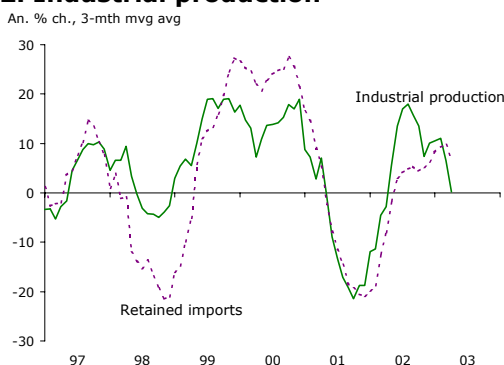


Source : Ministry of Trade and Industry (MTI), Singapore

It has been a roller-coaster ride for the economy since the Asian crisis in 1997-98. Just when the economic assessment was looking more favourable after the recession in 2001 and a mild recovery in 2002, prospects were clouded by the Iraq conflict and expectations of higher oil prices. The SARS outbreak, however, proved to be a greater shock to the system. Having been declared "SARS-free" by the World Health Organisation on 30 May, the country can now focus on the business of growth.

Real GDP rose by 1.6% over the year to Q1 2003, a slower rate than the 3% recorded in Q4 2002. Output in the second quarter is forecast to decline, underscoring the severity of the SARS impact and sluggish external demand affecting manufacturing output. However, a recession is not predicted with the economy expected to pick up in the second half.

2. Industrial production



Source: Economic Development Board

Manufacturing activity has slowed down. Output fell by 5% over the year to April 2003, dragged down by a 5.3% decline in electronics. On a 3-month moving average basis, output growth slowed to 0.2% over the same period in 2002 and is expected to remain weak in the current quarter before an upturn in the second half. Diversification of the manufacturing base should help to reduce wide swings in activity over the medium term. Electronics accounts for 32.3% of industry value-added (47.8% in 2000), with the biomedical and chemicals clusters accounting for 31.4% collectively (15.8%).

New investment commitments in manufacturing slowed to S\$1.1 bn in Q1 2003 (the foreign component constituted 66% of the total) in contrast to an average of S\$2.3 bn worth of commitments per quarter over the past two years. The Economic Development Board had, at the start of the year, already projected a fall in investment commitments to S\$8 bn (S\$9 bn in 2002) in 2003. While this now appears to be optimistic, Singapore is likely to benefit over the long term from the way it managed the SARS crisis.

3. Tourism-related industries

Impact of SARS on selected tourism and related sectors*

	No. of establishments	Employment of sector	% fall in sales due to SARS
Retail	18,372	85,589	10-50%
Catering trade	3,356	48,202	Up to 50%
Hotels	196	26,096	Up to 70%
Taxi drivers	-	34,000	30-40%
Tour operators	648	7,405	70-80%

*: reflecting situation in March-April 2003

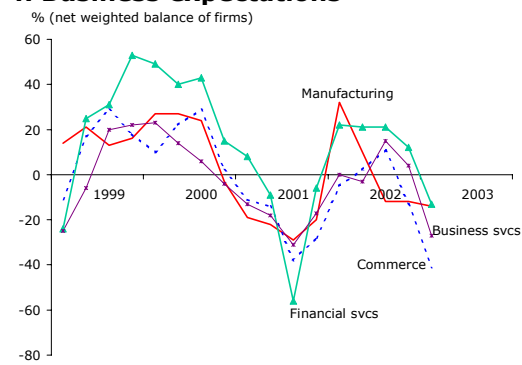
Source: MTI, Economic Survey of Singapore, Q1 2003

While the quick and decisive action by the government has contained the crisis, tourist flows are not expected to resume to normal levels anytime soon. Tourist arrivals fell by 14.8% and 67% over the year to March and April respectively and the number of visitors was down 75% year-on-year in the period 29 April to 5 May. For 2003, the Singapore Tourism Board projects a decline in inbound traffic of 30-40% against 2002. Travel receipts represent about 5% of GDP and tourist spending accounts for around 10-12% of retail sales.

A relief package worth S\$230 mn was announced in April 2003 mainly targeting tourism-related industries. Another package cannot be ruled out if the downturn in economic activity in Q2 2003 proves to be steeper than expected.

According to the World Travel and Tourism Council, SARS will sap Singapore's travel & tourism industry GDP of some US\$1.1 bn vis-à-vis the original forecast for 2003 and cost as many as 17,000 jobs. The impact is much greater when taking into account its effect on the broader economy.

4. Business expectations

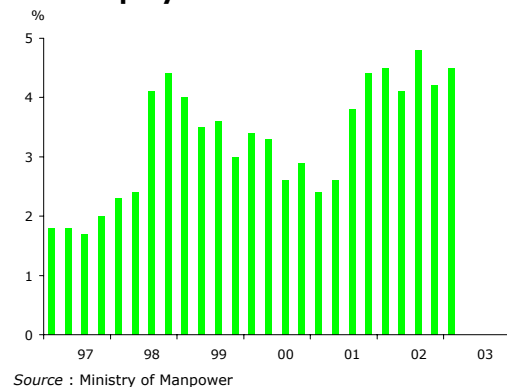


Business expectations in the six months to September 2003 remain weak, with a greater proportion of firms in the commerce sector and services sector as a whole, more pessimistic about business conditions than firms in the manufacturing sector.

Overall, a sharp downward revision to economic growth has been made with real GDP forecast to expand by 1½% in 2003 instead of 3½% projected at the start of this year. The official forecast is for growth to range between 0.5% and 2.5%.

The more upbeat picture has been postponed to 2004, barring unforeseen circumstances. Real GDP is forecast to grow by 6% in 2004, reflecting a pick-up in external demand and coming off a weak base. With goods exports measuring 144% of GDP, a lot is riding on a recovery in global demand for electronics (which accounts for about 60% of non-oil domestic exports) and faster growth in major export markets, particularly the US. Malaysia and the US are Singapore's top two export markets, absorbing 32.1% of total exports collectively in 2002.

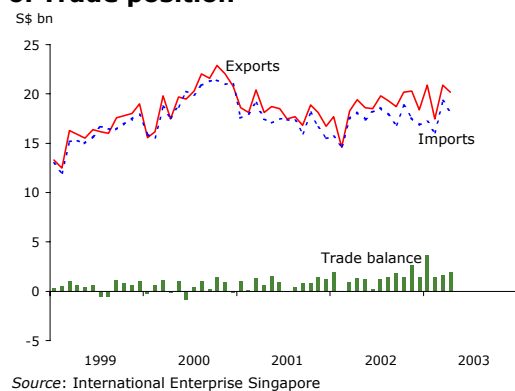
5. Unemployment rate



The SARS outbreak and cautious investor sentiment as a result of the Iraq conflict has exacerbated the unemployment problem. Unemployment edged up to 4.5% in March 2003 from 4.2% in December 2002 and a further deterioration is expected. Estimates indicate that the unemployment rate could reach 5½% this year. A slow recovery in tourism-related sectors and the lag effect on the labour market of weak economic conditions are likely to see the rate stay relatively high but some improvement is expected in 2004.

The large swings in economic activity over the past few years have highlighted structural issues in the labour market that continue to be difficult to address. Some of these include a less flexible workforce in terms of job aspirations and remuneration, and employers' reluctance to employ older workers.

6. Trade position

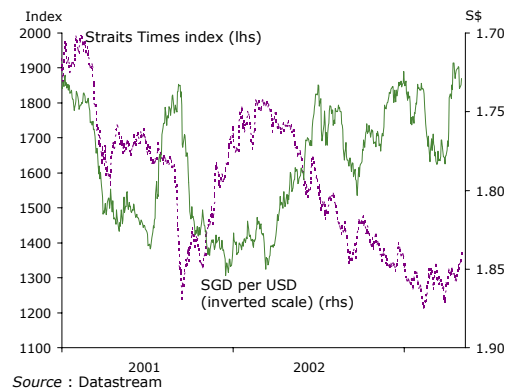


The trade surplus widened in Q1 2003, underpinned by a 17% year-on-year increase in exports against a 9.8% rise in imports. Exports in April, however, slowed dramatically to just 3.9% compared with the same month in 2002.

The current account posted a surplus of S\$33.5 bn in 2002 (21.5% of GDP), up 15.8% from 2001. The surplus for Q1 2003 was S\$11.7 bn, up by more than 50% from the same quarter in 2002 and reflected a hefty rise in the merchandise trade surplus. This has helped to lift foreign reserves, which stood at S\$148 bn as of March 2003, sufficient for about 8 months of imports.

Singapore has stepped up its bid to establish bilateral free trade agreements. The most recent free trade deal, signed in May 2003 and due to come into effect in January 2004, between Singapore and the US, marks a significant step towards expanding trade and investment ties and raising Singapore's profile as a regional business hub.

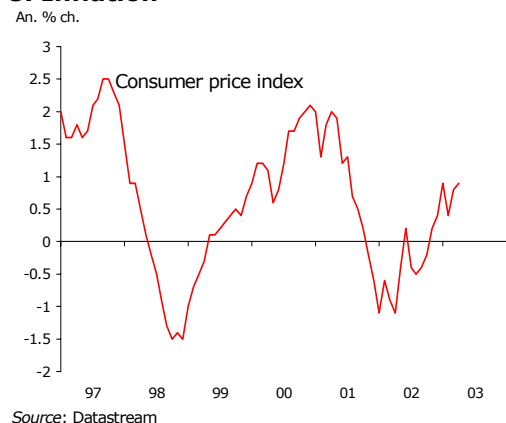
7. Financial markets



The stockmarket was weak for the most part of 2002 in line with many international equity markets. As of 2 June, the Straits Times Index had risen by 3% since the beginning of the year, the poorest performer among the East Asian stockmarkets, amidst concerns over domestic economic prospects.

Uncertainty over the impact of SARS on the economy prompted renewed weakness in the Singapore dollar in March and April. The Singapore dollar has since regained some ground but this is due largely to weakness in the US dollar. The outlook is for a mild appreciation of the Singapore dollar, supported by an improving economy.

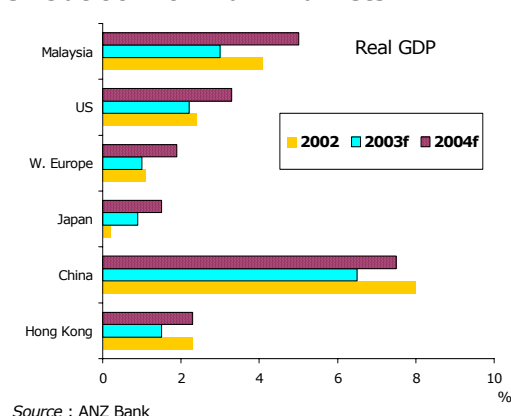
8. Inflation



Inflation has edged up this year reflecting the rise in oil prices, an increase in the Goods & Services Tax of 1 percentage point to 4%, the weaker currency and a brief shortage of fresh vegetables in April due to the temporary closure of a major wholesale market. The CPI rose by 0.9% over the year to April.

However, the inflation environment is still benign, with annual inflation averaging 0.7% during January-April 2003 and is expected to stay under 1% for 2003. Wage pressures are expected to be subdued with calls to freeze or cut wages amidst sluggish economic conditions. The outlook for 2004 is for a mild increase in consumer prices to around 1% following an anticipated recovery in domestic demand.

9. Outlook for main markets



The outlook for a pick-up in economic activity in the second half of 2003 and much stronger growth in 2004 is premised on an upturn in main trading partner economies and strengthening in global demand for electronics goods. Singapore's high trade intensity makes it more vulnerable than its neighbours and the challenges of greater competitive pressures for trade and investment in the region and maintenance of regional security underscores the much tougher environment the economy finds itself operating in.

Jasmine Robinson
 Economics@ANZ
 email: robinsj7@anz.com

ANZ is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

10th Floor 100 Queen Street, Melbourne 3000, Australia

Telephone +61 3 9273 6224

Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited

ACN 005 357 522

Minerva House, PO Box 7, Montague Close, London, SE1 9DH, United Kingdom

Telephone+ 44 207 378 2121

Fax+44 207 378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc.

(Member of NASD and SIPC)

6th Floor 1177 Avenue of the Americas

New York, NY 10036, United States of America

Tel: +1 212-801-9160

Fax: +1 212-801-9163

NEW ZEALAND by:

ANZ Banking Group (New Zealand) Limited.

Level 10 215-229 Lambton Quay Wellington, New Zealand

Telephone +64 4 496 7000,

Fax +64 4 496 7360

In Australia, ANZ Investment Bank is a business name of Australia and New Zealand Banking Group Limited, ACN 005 357 522 ('ANZ Bank'), which is a licensed securities dealer. In New Zealand, ANZ Investment Bank is a business name of ANZ Banking Group (New Zealand) Limited WN / 035976 ('ANZ NZ').

This report is being distributed in the United States by ANZ Securities, Inc. ('ANZ S') (an affiliated company of ANZ Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person (s) receiving this report and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This report is being distributed in the United Kingdom by Australia and New Zealand Banking Group Limited, ('ANZ Bank, UK') for the information of its market counterparty and intermediate customers only. It is not intended for and must not be distributed to private clients. In the UK, ANZ Bank is regulated by, and is a member of, the Financial Services Authority ('FSA'). Nothing here excludes or restricts any duty or liability to a customer which ANZ Bank, UK may have under The Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This research publication of ANZ Bank is issued on the basis that it is only for the information of the particular person to whom it is provided. This report may not be reproduced, distributed or published by any recipient for any purpose. Any recommendations relating to securities contained herein are based on a consideration of the securities alone, and as such are conditional and must not be relied upon without specific advice from your securities advisor as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Under no circumstances is this report to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZ Bank, ANZ NZ, ANZ S, its affiliated companies, or their associates and employees may have an interest in any securities directly or indirectly the subject of this report (and may receive commissions or other remuneration in relation to the sale of such securities), or may perform services for, or solicit business from, any company the subject of this report. If you have been referred to ANZ Bank, ANZ NZ, ANZ S or its affiliated company by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this report accurately reflect the author's personal views about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this report and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed about any securities or issuers in this report. ANZ Bank, ANZ NZ, ANZ S, its affiliated companies, their directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ('Liability') arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.

For further information, please email Economics@anz.com