

BUDGET STATEMENT 2003

SEIZING OPPORTUNITY IN UNCERTAINTY

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PART I: OUTLOOK AND RESPONSE

Mr Speaker, Sir

1.1 I beg to move that this Parliament approves the financial policy of the Government for the financial year 1st April 2003 to 31st March 2004.

1.2 In 2001, our GDP shrank by 2.4% in our worst-ever recession since Independence. Last year began promisingly. Despite the uncertainties of the war against terrorism and the conflicts in the Middle East, initially the recovery of the United States (US) economy boosted our growth prospects. But as the year progressed, a wave of corporate scandals and the WorldCom and Enron collapses shook the confidence of investors and consumers. This slowed down the US economy. The European Union (EU) and Japanese economies also lost steam. However, the East Asian economies did well. Our exports to China grew strongly, but this was not enough to make up for the fall in external demand elsewhere.

1.3 Despite the unfavourable conditions, our economy grew by 2.2% in 2002. Unemployment peaked at 4.6%, but improved slightly to 4.2% by the end of the year. Manufacturing grew by 8.3% driven largely by the small, but fast-expanding, biomedical science cluster. Exports remained resilient, growing by 1.9%.

1.4 Singapore continued to attract investments. We garnered over \$9 billion of fixed-asset investments in manufacturing. Foreign manufacturing fixed-asset investments rose from \$6.6 billion in 2001 to \$7 billion last year, while committed foreign business spending grew by 35% to \$1.5 billion. The electronics cluster continued to attract the largest share of investments followed by the chemicals cluster. Investments in biomedical projects generated the second highest value-added for the economy. All these investments are expected to create 21,000 jobs.

1.5 Despite some public concern about the cost of living, the Consumer Price Index (CPI) last year fell by 0.4%. Healthcare and education costs rose, but housing and car prices fell. Lower electricity tariffs, cheaper accommodation and household durables combined to reduce housing costs by 2.2%. Cheaper petrol and a lower road tax reduced transport and communication costs by 1%. Basic food items like rice, cooking oil, meat, seafood and vegetables all cost less.

1.6 The Government implemented a slate of measures to help Singaporeans cope with the downturn and adapt to the economic restructuring. Last year, our training and upgrading programmes helped 36,000 workers learn new skills to match the jobs that are available or being created. The Off-Budget package helped all Singaporeans, especially the lower-income and unemployed. 800,000 HDB households received 10 months of utilities rebates worth a total of \$226 million. A further \$110 million went towards helping Singaporeans through rebates on rental and service and conservancy (S&C) charges.

Immediate Outlook

Global

1.7 At present, the major uncertainty hanging over the world economy is the prospect of war in Iraq. Consumers are holding back their spending, and companies are delaying investment plans. Within a few weeks we will know whether war is going to break out. Within a few months we will know how things have turned out.

1.8 One significant worry is oil prices. After a war, they could fall back to normal and give a boost to growth, or they may stay high and slow down the recovery process. The crisis in Venezuela, which has significantly reduced world supplies of oil, makes it more likely that oil prices will stay high.

1.9 Growth in Europe and Japan this year is expected to remain sluggish. In the US, the consumer confidence index in January reached its lowest level since 1993. The present projection remains for a pickup in the second half of the year, bringing growth close to 3%, slightly better than 2002.

Regional

1.10 In East Asia, sustained domestic consumption should maintain growth at rates similar to last year, despite tensions in the Korean peninsula. Exports from the Southeast Asian region should stay robust, as stronger demand from China should partially compensate for the weaker demand from the developed economies. China is a large and rapidly growing market that offers many opportunities to nimble entrepreneurs and companies. India's economy too has much potential. It is showing a new dynamism and a more outward orientation, especially in the southern states.

1.11 Economic cooperation among the ASEAN countries is gradually deepening, for example through the ASEAN Free Trade Area (AFTA). ASEAN is also launching Free Trade Agreement (FTA) negotiations with