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RECENT ECONOMIC PERFORMANCE

	1997	1998	1999	2000	2001
GDP Growth	8.5%	0.1%	5.9%	9.9%	2.0%
Financial Sector growth	18.6%	8.6%	0.8%	4.1%	2.2%
CPI Inflation	2%	0.3%	0.0%	1.3%	1.0%
Overall balance of payment	S$11.9 b	S$5.0 b	S$7.3 b	S$11.8 b	1.6 b
US$/S$ exchange rate (end of period)	1.6755	1.6605	1.6660	1.7315	1.8510

The Singapore economy contracted by 2% in 2001, after a robust 9.9% growth in 2000. This sharp downturn was primarily due to slump in external demand, reflecting the downturn in the global electronics sector. Weak household consumption and business investment were also contributing factors. The economy saw an improvement in the 4th quarter, with a growth of 5.6% on an annualized quarter-on-quarter basis, after 3 consecutive quarters of decline.

The financial services sector moderated from a growth of 4.1% in 2000 to 2.2% in 2001. This was attributed to weaker performance in the Asian Dollar Market, insurance industry, investment advisory and slowdown in stock market activities.

With the slowdown in economic activity, inflation remained benign and rose by 1% in 2001.

Singapore's overall balance of payments recorded a deficit of S$1.6 billion in 2001, compared with a surplus of S$11.8 billion. This resulted from a large outflow from the capital and financial account, mainly due to the slew of overseas merger and acquisition activities.

The Singapore dollar depreciated against the greenback and the Euro but gained 4% against the Yen. It lost ground against most of the Asian currencies in the second half of 2001. Domestic interest rates fell in tandem with easier global monetary conditions. The domestic 3-month inter-bank rate declined to a low of 0.88% at end-October, before rising slightly to 1.25% at end-December.

CAPITAL MARKET DEVELOPMENTS

Demutualisation and merger of the securities and futures exchanges

The Stock Exchange of Singapore (SES) and Singapore International Monetary Exchange (SIMEX) were both demutualised on 1 December 1999, to allow for greater responsiveness to the business environment; diversity of interests to be represented in setting the directions for the exchange and greater funding flexibility.

Simultaneously, the two exchanges were also merged into a single integrated entity, so as to align the cash and derivatives business strategies more closely, and to benefit from consolidated management, greater financial resources and economies of scale.

The restructuring of the exchanges was completed when the Singapore Exchange (SGX) was listed on itself on 23 November 2000. This provides SGX greater flexibility in capital structure and financing, and to further hone its for-profit orientation.

Liberalisation measures

In consultation with the MAS, SGX has embarked on initiatives to open up trading access to more participants, including foreign participants. Previously, as part of the measures to nurture the local stockbroking industry, the trading activities of foreign-owned stockbrokers, known as international members (IM), were restricted in their dealing activities. IMs were allowed to accept only trades valued above S$5m from local clients. This limit was progressively lowered, and then entirely removed in January 2001.

Memberships on SES also used to be a scarce commodity, as new seats were seldom issued. Since 1 July 2000, SGX has been accepting new members. To open access in a phased manner, trading restrictions have been placed on these new members and these were entirely removed in January 2002.

In addition, as from 1 July 2000, interested parties have been able to apply for dual membership on both the securities and derivatives exchanges, provided they are of sound reputation and financial strength. This is intended to allow firms that engage in both markets to streamline their operations, reduce costs and achieve greater efficiency.

Commission rates were progressively liberalized since early 1999, leading to freely negotiable commissions for all trades in October 2000. The objective is to make the cost of securities transactions more competitive in Singapore. It would also serve as an impetus for brokerages, who traditionally derived the bulk of their income from commissions to move up the value chain and enhance the efficiency of their operations.

SGX-ASX Co-Trading Linkage

SGX and Australian Stock Exchange Ltd (ASX) launched the first co-trading linkage in the world, on 20 December 2001. The linkage allows investors in Australia and Singapore to co-trade selected securities in each other's market directly, through brokers in their own countries, whenever the respective markets are open. For a start, the linkage will allow co-trading of 51 and 50 selected stocks listed on the SGX and ASX, respectively. The selection criteria include inclusion in a share price index, liquidity and market capitalisation or familiarity.

Foreign participation and Recognised Trading Systems Providers

Driven by technological advances, we have received a number of applications from overseas exchanges to place remote terminals in Singapore. Some firms are also leveraging on the electronic medium to establish trading platforms for bonds and foreign securities to Singapore investors. Most of these business models did not fit easily into our existing securities legislation, designed more for the bricks-and-mortar intermediaries and exchanges.

The Securities and Futures Act, which was passed in Parliament in October 2001, introduced a Recognised Trading System Providers regime. Under this regime, a flexible and pragmatic approach is adopted to tailor the regulatory requirements to reflect the risks posed by the different trading platforms. This would better enable us to embrace legitimate financial innovation without comprising our regulatory objectives.

Market Statistics

	1999	2000	2001	% change (2001-2001)
No of new listings	51	81	37	54%
New funds raised	S$12.2 b	S$14.2 b	S$14.9b	5%
Total turnover value	S$197 b	S$172 b	S$132 b	23%
Market capitalization (year-end)	S$456 b	S$ 395 b	S$ 335 b	15%
STI (year-end)	2,480	1,927	1,623	16%
No of futures contracts traded	25.9 m	27.6 m	31.0 m	12%

The SGX maintains two separate listings for equities - a mainboard and a second board (SESDAQ). As at December 2001, the number of companies listed on the Mainboard and SESDAQ were 386 and 108 respectively. Of these, 37 were new listings, compared with the record listing of 81 in 2000. Consequently, funds raised by listed issuers declined by 83%.

The slowdown in major economies exacerbated the sluggish turnover on the local bourse, with total turnover value tumbling by 23%. The Straits Times Index, started with a lower base of 1,927 compared to 1999, dropped a further 16% in 2001. This reflected similar trends in other major markets, due to the aftermath of the September 11 incident.

On the futures side, SGX registered another record trading volume, an increase of 12% compared to 2000. A total of 31 m contracts were traded. This was due to an increase in the trading activity in the Eurodollar futures.