



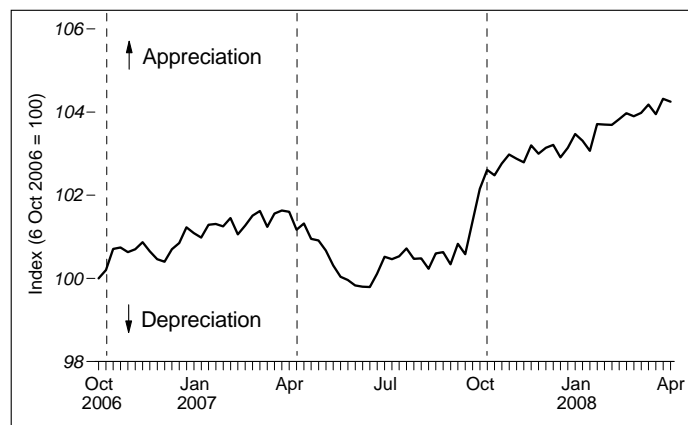
10 April 2008

Monetary Policy Statement

INTRODUCTION

1. Since April 2004, MAS has maintained the policy of a modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER) policy band. In October 2007, the policy was tightened through a slight increase in the slope of the band. The gradual appreciation of the S\$ exchange rate over the past few years has helped to mitigate inflationary pressures.

Chart 1
Nominal Effective Exchange Rate (S\$NEER)



- - - - indicates release of Monetary Policy Statement

2. Since the last policy review, the S\$NEER has fluctuated in the upper half of the policy band. (Chart 1) This occurred against the general weakness of the US\$ and the concomitant strengthening of other currencies including the yen and euro. Amidst the cuts in US interest rates by the Federal Reserve, the domestic three-month interbank interest rate fell from 2.75% as at end-August 2007 to 1.31% at the end of March 2008.

OUTLOOK FOR 2008

3. Notwithstanding the slowdown in the US economy and the turbulence in financial markets, economic activity in Singapore has continued to stay firm. The *Advance Estimates* released by the Ministry of Trade and Industry today showed that GDP expanded by 7.2% on a year-on-year basis in Q1 2008, bringing average growth to 6.3% in the six months from Oct 2007 to Mar 2008. Growth was broad-based, with the manufacturing, construction, financial services and transport hub services sectors contributing to sustained economic activity.

4. Singapore's economic growth is likely to ease in the next few quarters. Recent data indicate a significant deterioration in growth prospects of the developed economies, particularly the US, amidst heightened risk aversion and tighter credit conditions. However, economic activity in Asia is expected to remain fairly resilient in the near term, reflecting strong domestic demand and regional trade flows. Asian financial institutions have also not been significantly affected by the subprime crisis in the US. In Singapore, GDP growth is expected to be supported by the continued expansion in a number of industries including marine engineering, construction, tourism, and certain segments of the services sector such as bank intermediation.

5. Our assessment at this point is for Singapore's GDP growth to ease to 4-6% this year, in line with the economy's growth potential. However, there are downside risks to growth reflecting the considerable uncertainty on the global economic front. In particular, a more severe global downturn cannot be ruled out if there is a further escalation of the financial crisis in the US. If this occurs, Singapore's growth will be adversely affected.

6. CPI inflation in Singapore has risen sharply since the second half of last year, reflecting a confluence of external and domestic factors. From 0.8% in the first half of last year, it rose to 3.4% in H2 before accelerating further to 6.6% in Jan-Feb 2008. The escalation in global oil, food and other commodity prices has contributed, directly and indirectly, to the increase in consumer prices. Domestically, business costs have risen on account of higher wages and rentals amidst tighter conditions in the labour and commercial property markets, respectively. The rise in CPI inflation also reflected an adjustment in imputed rents of residential properties.

7. Global oil and food prices are likely to remain elevated over the medium term, while domestic cost pressures will persist due to short-term capacity constraints in certain segments of the economy. In the near term, the pass-through of cost increases from both external and domestic sources will continue, albeit at a more moderate pace. Thus, CPI inflation is expected to remain high until the middle of the year, before easing in the second half. For 2008 as a whole, CPI inflation is projected to come in at the upper half of the 4.5-5.5% forecast range.

MONETARY POLICY

8. The Singapore economy is expected to grow at a more moderate pace this year following several years of robust expansion. At the same time, CPI inflation has increased and is expected to remain elevated in the first half of this year. Even as the downside risks to economic growth have increased, global inflationary pressures remain high.

9. Against this backdrop of continuing external and domestic cost pressures, an upward shift of the policy band at this point will help to moderate inflation going forward, while providing support for sustainable growth in the economy. MAS will therefore re-centre the exchange rate policy band at the prevailing level of the S\$NEER. There will be no change to the slope or width of the policy band.