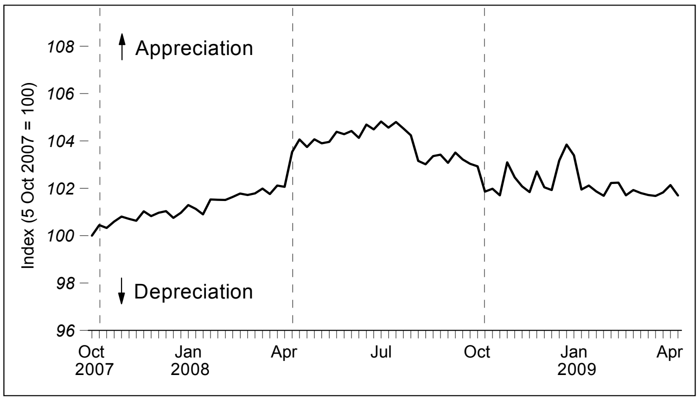
14 April 2009

Monetary Policy Statement

INTRODUCTION

1. In October 2008, MAS shifted its policy stance to a zero percent appreciation of the S$NEER policy band. The decision was taken amidst easing external and domestic inflationary pressures, and a weakening global economic environment.

Chart 1
S$ Nominal Effective Exchange Rate



- - - - - indicates release of Monetary Policy Statement

2. Since the last policy review, the S$NEER (Chart 1) has largely fluctuated in the lower half of the policy band. This reflected a number of factors, including the general strength of the US$, continued risk aversion by global investors and the erosion in domestic economic conditions. With the fall in global interest rates, the domestic three-month interbank rate also declined, from 1.88% in September 2008 to 0.69% at end-March 2009.

OUTLOOK FOR 2009

3. The Singapore economy recorded a broad-based contraction of 16.4% on a quarter-on-quarter seasonally adjusted annualised (q-o-q SAAR) basis in Q4 2008. Amidst the unprecedented collapse in global demand, trade-related activities such as manufacturing, wholesale trade and transport services decelerated sharply, while the financial sector was adversely affected by the turmoil in international financial markets. According to the *Advance Estimates* released by the Ministry of Trade and Industry today, GDP contracted by a further 19.7% q-o-q SAAR in Q1 2009, with the decline accentuated by a reduction in pharmaceutical output. Both electronics manufacturing and financial services experienced a slower rate of contraction in early 2009 compared to Q4 2008.

4. Looking ahead, some moderation in the rate of decline in economic activity around the world is expected following the steep fall since the end of last year. A number of leading indicators have recently picked up slightly, and consumption spending has held up somewhat better than expected, particularly in the US. While this is encouraging, considerable downside risks to growth remain. Job losses have been significant, and segments of the broader credit market continue to be impaired. Against this backdrop and in view of the sharp fall in domestic economic output over the past two quarters, Singapore's GDP growth forecast for 2009 has been lowered to between -9% and -6%.

5. In the meantime, CPI inflation has slowed significantly to 2.4% year-on-year in Jan-Feb 2009, from 5.4% in Q4 last year. This was largely due to the sharp decline in the prices of direct oil-related items, such as petrol, as well as a moderation in food price increases. In addition, price increases of several retail items such as clothing and household durables have eased. CPI inflation will continue to fall in the coming months, reflecting a combination of lower commodity prices and increased slack in the domestic economy. Domestic cost pressures are moderating, as evidenced by the fall in rentals and more subdued wage increases. With the high base in 2008, headline inflation would temporarily turn negative in certain months this year. For the whole of 2009, the CPI inflation forecast is unchanged at -1% to 0%.[1/]

MONETARY POLICY

6. Amidst the global downturn and continuing stresses in world financial markets, external and domestic inflationary pressures are dissipating. Meanwhile, the domestic economy is likely to remain below potential till a decisive recovery is seen in Singapore's export markets.

7. In our assessment, the current level of the S$NEER is appropriate for maintaining domestic price stability over the medium term, taking into account the prospects for growth in the Singapore economy. MAS will therefore re-centre the exchange rate policy band to the prevailing level of the S$NEER, while keeping the zero percent appreciation path. The width of the band will remain unchanged. The Singapore economy continues to be anchored by sound fundamentals and a resilient financial system. There is therefore no reason for any undue weakening of the Singapore dollar.

[1/] The 2009 CPI inflation forecast was revised to -1.0% to 0% at MTI's Annual Economic Survey media briefing on 21 Jan 2009.