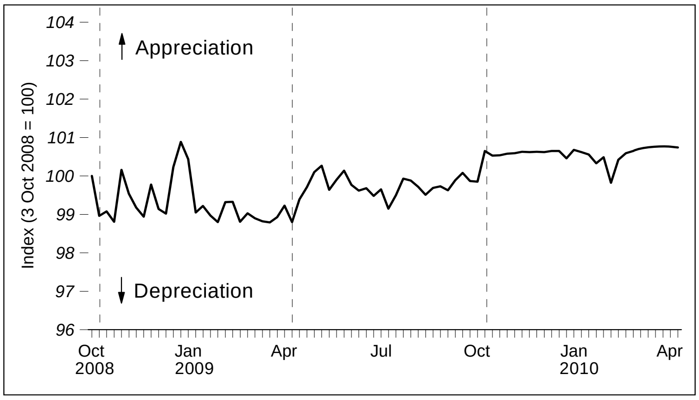
14 April 2010

Monetary Policy Statement

INTRODUCTION

1. MAS has maintained a zero percent appreciation path for the S$NEER policy band since October 2008. The policy band was re-centred downwards in April last year, and kept at that level during the last policy announcement in October. This policy stance was assessed to be appropriate, given continuing weakness and uncertainties in global and domestic economic prospects.

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



- - - - - indicates release of Monetary Policy Statement

2. Over the past six months, the S$NEER (Chart 1) has fluctuated in the upper half of the policy band, reflecting growing optimism about the strength of the economic recovery in Asia. Meanwhile, the domestic three-month interbank rate has stabilised at a low level of 0.69% since early last year, reflecting the abundant liquidity conditions globally.

OUTLOOK FOR 2010

3. The recovery of the Singapore economy has been stronger than expected, and more entrenched since the beginning of this year. External demand has picked up appreciably, particularly for IT-related products. According to the *Advance Estimates* released by the Ministry of Trade and Industry today, Singapore's GDP surged by 32.1% on a quarter-on-quarter seasonally adjusted annualised basis in Q1 2010. The growth was broad-based, with strong performance recorded in the manufacturing and services sectors. With the Q1 expansion, the Singapore economy has now fully recovered the output lost during the recession, and economic activity in a broad range of industries has exceeded its pre-crisis peak. As a result, the economy's output gap turned positive in Q1 2010.

4. Looking ahead, domestic economic activity is likely to be sustained at a relatively high level, even as the growth momentum slows in the coming quarters. External demand conditions are expected to be supportive in the transition towards more sustainable private sector-driven growth as governments around the world exit from their expansionary policies. Growth in Asia will likely remain firm, supported in part by robust domestic demand. Against this backdrop, and in view of the surge in growth seen in Q1, Singapore's GDP growth forecast for 2010 has been revised upwards to between 7% and 9%, from 4.5% and 6.5%.

5. Domestic CPI inflation averaged 0.6% in the first two months of 2010, increasing from -0.3% and -0.8% in the last two quarters of 2009 respectively. On a sequential basis, consumer price inflation has trended higher since Q3 last year, largely due to the rise in global commodity prices and private road transport costs. These two factors will continue to drive headline inflation rates up for the rest of 2010. Meanwhile, other domestic sources of inflationary pressures, though subdued presently, could be expected to emerge in the coming quarters. The labour market has tightened, with the seasonally adjusted resident unemployment rate falling from 5% in September 2009 to around its pre-crisis rate of 3% in December. Wage growth will begin to pick up this year, while commercial rentals are also likely to rise given improved economic conditions. Overall CPI inflation in 2010 is projected to be between 2.5% and 3.5%, slightly higher than the 2-3% forecast earlier. The MAS underlying inflation measure, which excludes accommodation and private road transport costs, will average around 2%.

MONETARY POLICY

6. The Singapore economy has rebounded from the downturn and is expected to continue on its firm recovery path given the more favourable global economic outlook. At the same time, inflationary pressures are likely to pick up, driven by rising global commodity prices as well as some domestic cost factors.

7. MAS will therefore re-centre the exchange rate policy band at the prevailing level of the S$NEER. Further, we will shift the policy band from that of a zero percent appreciation to one of modest and gradual appreciation. There will be no change to the width of the policy band. MAS will continue to be vigilant over developments in the external environment and their impact on the domestic economy, and stands ready to curb excessive volatility in the S$NEER.