



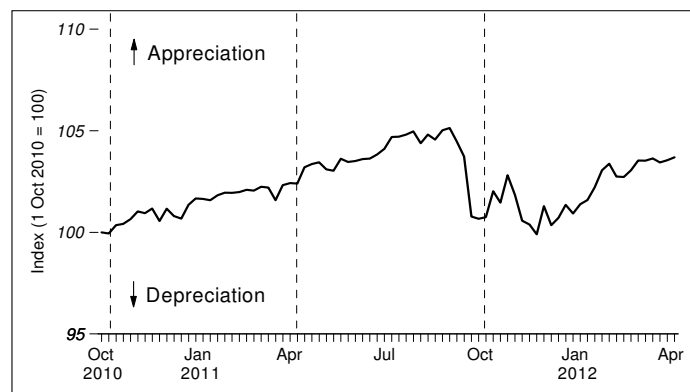
13 April 2012

Monetary Policy Statement

INTRODUCTION

1. MAS maintained the S\$NEER policy band on a modest and gradual appreciation path in the last policy review in October 2011. However, the slope of the policy band was reduced as economic activity was expected to slow, and hence ease the tightness in the labour market and alleviate core inflationary pressures.

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



----- indicates release of Monetary Policy Statement

2. Over the last six months, the S\$NEER was largely in the lower half of the policy band. It weakened in November 2011 due to heightened global risk aversion arising from the sovereign debt crisis in the Eurozone. However, it has since appreciated to around the mid-point of the policy band as investor sentiment picked up following improved macroeconomic data from the US and indications of some stabilisation in the Eurozone. The domestic three-month interbank rate rose to 0.50% in November, before falling to 0.38% in December, where it has remained since.

OUTLOOK FOR 2012

3. The Singapore economy has gained some momentum since the beginning of this year. According to the *Advance Estimates* released by the Ministry of Trade and Industry today, Singapore's GDP expanded by 9.9% on a quarter-on-quarter seasonally adjusted annualised basis in Q1 2012, following the 2.5% contraction in the preceding quarter. This was underpinned by a turnaround in IT-related activities as electronics manufacturing and trade recovered from the supply disruptions late last year. Financial services grew more rapidly, while the tourism industry continued to perform well on the back of resilient regional demand.

4. The outlook for the global economy remains subdued, but the most significant risks have been contained. In the US, business sentiments have improved, and the incipient recovery of the labour market is supporting private consumption. Although the Eurozone is still likely to slip into a recession in 2012, tail risks have receded following the ECB's longer-term refinancing operations (LTRO) programme. Meanwhile, growth in Asia ex-Japan will continue to be held up in part by domestic demand, even as export growth remains muted. Against these developments, the Singapore economy will experience modest growth of 1-3% in 2012.

5. With economic activity turning out somewhat stronger than anticipated in Q1 2012 and resource markets tightening further, core inflationary pressures have persisted. MAS Core Inflation, which excludes private road transport and accommodation costs, rose from 2.4% in Q4 2011 to 3.2% in the first two months of 2012. This reflected a more rapid pass-through of higher wage costs to prices of some consumer services. Meanwhile, CPI-All Items inflation moderated from 5.5% in Q4 2011 to 4.7% in January-February. This was mainly due to the smaller increase in COE premiums relative to a year ago.

6. Looking ahead, external inflationary pressures are likely to be sustained, largely due to higher oil prices. Domestically, the labour market remains tight. The pass-through of costs to consumers is therefore likely to continue, though at a reduced pace. Car prices could also rise further in response to the tight COE supply, especially if car de-registrations remain at current low levels

7. CPI-All Items inflation and MAS Core Inflation have come in stronger than expected since October 2011 and will remain elevated over the next few months, before easing over the remaining course of this year. MAS is revising the forecast for MAS Core Inflation from 1.5-2% to 2.5-3% for 2012. The forecast for CPI-All Items inflation in 2012 will also be raised from 2.5-3.5% to 3.5-4.5%. Accommodation and COE costs will together account for as much as half of CPI-All Items inflation in 2012.

MONETARY POLICY

8. The tail risks in the key industrialised economies have receded, but global growth is likely to remain below trend in the near term. Against this backdrop, the Singapore economy is expected to grow at a modest pace in 2012. Core inflationary pressures have persisted, but will likely ease in the latter half of the year.

9. MAS will therefore continue with the policy of a modest and gradual appreciation of the S\$NEER policy band. The slope will be increased slightly, and there will be no change to the level at which the band is centred. MAS is also restoring a narrower policy band. This policy stance will help anchor inflation expectations, ensure medium-term price stability, and keep growth on a sustainable path.