

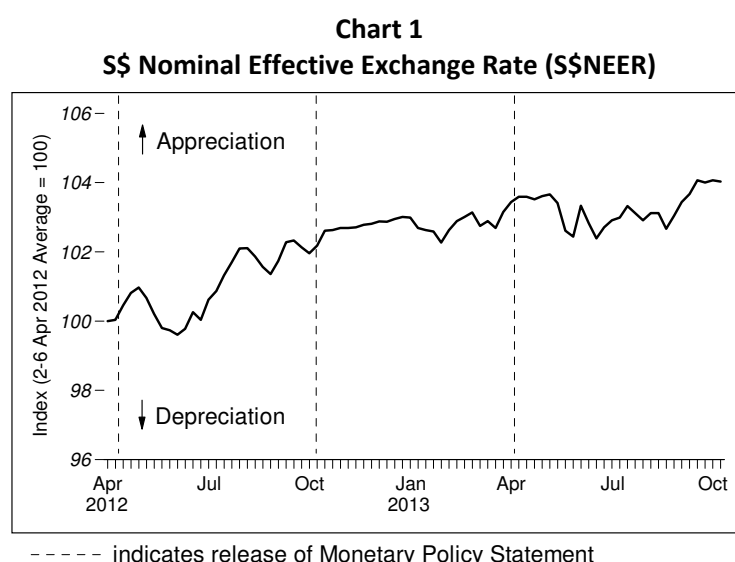


14 October 2013

Monetary Policy Statement

INTRODUCTION

1. In April 2013, MAS maintained the modest and gradual appreciation path of the S\$NEER policy band, with no change to its slope, width, and the level at which it was centred. This policy stance, which has been in place since April 2012, has helped to alleviate inflationary pressures and anchor inflation expectations, as well as facilitate the restructuring of the economy.



2. Over the last six months, the S\$NEER remained in the upper half of the policy band. It experienced some volatility, mainly reflecting market reactions to the prospective tapering of asset purchases by the US Federal Reserve. More recently, the S\$NEER appreciated on account of the relative weakness of regional currencies against the US\$, as well as the Fed's decision in mid-September to defer tapering. With global monetary conditions still accommodative, the domestic three-month interbank rate has remained low, averaging 0.40% from April through September 2013.

OUTLOOK FOR 2013 AND 2014

3. The Singapore economy is projected to grow modestly for the rest of 2013 and into 2014 as the external environment continues to improve, notwithstanding intermittent turbulence in financial markets. Following the strong performance in Q2 2013, economic activity contracted in Q3 but should resume an expansion trend in the quarters ahead. Headline and core inflation have stayed low in recent months. However, they have picked up in the latest readings and may continue to rise in the next few quarters, as accumulated business costs pass through to consumer prices alongside the cyclical uplift in economic activity.

Growth

4. According to the Advance Estimates released by the Ministry of Trade and Industry today, Singapore's GDP contracted by 1.0% in Q3 2013 on a quarter-on-quarter seasonally adjusted annualised basis, following the 16.9% surge in Q2. The financial services sector shrank as equity and foreign exchange market activities fell on concerns over a reduction in the pace of asset purchases by the Fed and the threat of military intervention in Syria. Manufacturing also posed a drag on GDP growth, with overall industrial production declining sequentially in July and August 2013 due to weakness in the electronics and pharmaceutical industries.

5. Incoming data suggests that the recovery in global economic activity is continuing, although there remain uncertainties, including those associated with the recurring fiscal impasse in the US and potentially disorderly market adjustments to the Fed's tapering of asset purchases. The outlook for the G3 is underpinned by the gradual revival in labour and housing markets in the US, expansionary macroeconomic policies in Japan, and improvements in business sentiment in the Eurozone. These developments should support global activity even as GDP growth in China stabilises at a sustainable level. Most other Asian economies have thus far withstood the recent bouts of financial market volatility and the tightening of financial conditions, and are taking policy measures to sustain growth. Meanwhile, the upturn in global GDP growth will buttress the incipient recovery of the global IT industry in 2014.

6. Singapore's external-oriented sectors are thus expected to see a modest uplift, while the domestic-driven sectors, such as construction, healthcare and education services, remain resilient. Overall GDP growth is projected at 2.5–3.5% in 2013, and is unlikely to be significantly different in 2014. The labour market should remain at full employment.

Inflation

7. Imported price pressures have been muted, given moderate inflation in Singapore's major trade partners, notwithstanding the rise in oil prices in recent months. In comparison, domestic inflationary pressures have picked up as businesses pass on more of accumulated cost increases to consumer prices, following the relatively weak pass-through into prices in earlier quarters. As a result, MAS Core Inflation, which excludes private road transport and accommodation costs, edged up to 1.8% y-o-y in August, from 1.6% in the first seven months of the year. Reflecting the recovery in COE premiums, CPI-All Items inflation rose to 1.9% in July–August, from 1.6% in Q2 2013.

8. While global demand conditions will strengthen, spare production capacity in the advanced economies and ample supply buffers in commodity markets should keep a lid on imported inflation. However, the pass-through of domestic costs to prices of consumer services could intensify, given the rising cost pressures firms are facing from business rentals, COE premiums for commercial vehicles, and labour costs. The unemployment rate should stay below its historical average, alongside slowing labour force growth. MAS Core Inflation is expected to be 1.5–2% in 2013 and rise to 2–3% in 2014.

9. Imputed rentals on owner-occupied accommodation will increase at a slower pace with the greater supply of housing coming on stream. COE premiums could continue to rise in the short term as the market adjusts to the pending re-categorisation of COEs. However, the increases are unlikely to be sustained at the same pace. For 2013, CPI-All Items inflation is projected to come in at the upper half of the 2–3% forecast range.¹ For 2014, the forecast for CPI-All Items inflation is similar to that for MAS Core Inflation, at 2–3%.

MONETARY POLICY

10. The Singapore economy should continue to expand for the rest of 2013 and into 2014, although some volatility in growth rates is likely. There are short-term uncertainties in the external environment, and MAS is closely monitoring economic and financial developments. Barring a significant deterioration in global demand conditions, the labour market will remain tight, and exert further upward pressures on MAS Core Inflation as firms pass on accumulated costs to consumer prices.

11. MAS will therefore maintain its policy of a modest and gradual appreciation of the S\$NEER policy band. There will be no change to the slope of the policy band, and the level at which it is centred. The present width of the band is sufficient to accommodate temporary fluctuations in the S\$NEER, and will be kept unchanged. This policy stance is assessed to be appropriate, taking into account the balance of risks between external demand uncertainties and rising domestic inflationary pressures.

¹ At the Annual Report 2012/13 Press Conference on 23 July 2013, MAS revised the forecast for CPI-All Items inflation for 2013 down to 2–3%, from 3–4% at the April 2013 Monetary Policy Statement, in view of the sharp fall in car prices following the announcement of financing restrictions on motor vehicle loans.