

Special Feature A

Singapore's Monetary History: The Quest For A Nominal Anchor

Introduction

Singapore is one of the few, if not the only, country in the world that operates a monetary policy regime based on a managed float of its currency. Such a policy framework represents a notable departure from the bipolar regimes of a fixed exchange rate or a free float, as well as intermediate regimes that target domestic interest rates, while attempting to retain some influence over the exchange rate.

Historically, the operation of monetary policy regimes is closely intertwined with the provision of a nominal anchor for the economy. In this context, Mishkin (1999) argues that the nominal anchor is a constraint on the value of the domestic currency. It provides the conditions that uniquely determine the price level, and therefore lays the foundation for price stability. More importantly, the nominal anchor constrains discretionary monetary policy through the adoption of a credible exchange rate peg, or the setting of targets for monetary growth or the inflation rate. Accordingly, the concept of a nominal anchor remains relevant to monetary policymaking today, even as central banks adopt ever more unconventional monetary policies such as quantitative easing and negative interest rates. Indeed, a credible commitment to a nominal anchor helps to tie down inflation expectations and stabilise aggregate output. (Mishkin, 2012) Arguably, the nominal anchor has assumed an even more critical role in the present environment, where unconventional monetary policies are prevalent, by serving as a focal point for the public to understand central banks' actions, and as a basis for the formation of inflation expectations.

A fixed exchange rate is an example of a nominal anchor. Eichengreen (1994) states that the

exchange rate is “the single most important price in the economy”, with fluctuations in the currency altering prices of domestically-produced goods relative to those abroad.

In fixed rate regimes, the pegging of a domestic currency to a reserve currency effectively provides a nominal anchor for the economy, albeit at the cost of a loss in monetary autonomy, while in flexible rate regimes, the anchor is supplied by control over the money supply or interest rates. In Singapore's case, the adoption of an exchange rate-centred monetary policy in the early 1980s raised the question of what exactly is the nominal anchor, given that the trade-weighted value of the domestic currency is not a targeted final outcome of monetary policy, but rather, the intermediate target.

In this 45th year since MAS was established, this Special Feature will provide a broad sweep of Singapore's search for a nominal anchor since the early 19th century, covering the period of its participation in the silver and gold standards, the fix to the pound sterling in 1914, and the Bretton Woods system of fixed exchange rates from 1944 until its demise in the early 1970s, followed by the unsettled period of generalised floating and finally, the introduction of Singapore's unique exchange rate-centred policy in the early 1980s. The evolution of the system to provide the nominal anchor for price stability, in the context of a very open economy and export-driven development strategy, will be highlighted.

The Nominal Anchor In Singapore's Economic History

Before the dawn of the 20th century, the exchange rate was the *de facto* nominal anchor for the global economy. As most countries relied on specie-based money for the settlement of transactions, bilateral exchange rates were, for all practical purposes, fixed by the operation of the gold, silver or bimetallic standards. Coupled with free movement of capital, this meant that there was no scope for the active conduct of money supply or interest rate-based monetary policy.

Instead, the price of gold or silver determined the prices of imports and constrained the value of the domestic currency by limiting money creation to the pace of growth in the supply of specie. Meanwhile, the price-specie adjustment mechanism meant that countries' balance of payments positions were linked directly to their imports and exports of metals, with the price level being determined as a by-product of the flows of goods and specie.

Beginning with Singapore's founding as a trading outpost for the British East India Company in 1819, silver coins were the main currency in circulation. Although Britain had formally moved from the silver to the gold standard in 1821, silver coins minted in Hong Kong, Mexico, and Spain remained the currency of choice when Singapore was reconstituted as a Crown Colony in 1867. In 1897, the Board of Commissioners of Currency for the Straits Settlements (Penang, Malacca, and Singapore) was established, and two years later, it began issuing government notes redeemable against silver coins. In recognition of the importance of silver in trade, when the Straits government obtained its own currency, the Straits dollar, and began minting coins in 1903, silver rather than gold coins were struck.

A specie-linked currency is unique in that it performs the functions of money and also serves as a nominal anchor. Over the 19th century and up until the early 20th century in Singapore, silver dollars played all these roles—anchoring the prices of tradables while serving as a medium of exchange, a unit of account and, critically, a store of value. Moreover, by fixing the exchange rate and constraining the value of the domestic

currency, the amount of silver dollars determined purchasing power domestically. However, the glut of silver on the world market over the latter half of the 19th century led to the value of silver declining sharply relative to gold, eventually causing the domestic value of the silver-linked Straits dollar to fall. Chiang (1978) described how the purchasing power of salaries denominated in currencies linked to silver was eroded, even as the cost of imports from economies on the gold standard increased. Drawing on the records of the Singapore Chamber of Commerce, Kemmerer (1904) observed that businesses and households in the Straits Settlements were deeply concerned about “the recent serious decline in the value of the dollar current here, the violent fluctuations in the price of silver and the extreme uncertainty as to the future of this metal, all of which are not only causing great inconvenience to the trade of the colony but constitute grave obstacles to the development of its natural resources by stopping the flow of capital from other parts of the world”. At the same time, a growing proportion of Singapore's trade was with gold standard countries. By 1902, global superpowers and regional neighbours, such as Germany, Great Britain, India, and Japan, were on gold as well. Consequently, the Chamber was asked to examine the “feasibility and expediency of securing fixity of exchange” to gold rather than silver.

Partly at the behest of local merchants, the Straits Settlements moved to a *de jure* gold standard in 1906. Britain was already on the standard and the change automatically implied fixity of the sterling/Straits dollar exchange rate. The Straits dollar's link to the gold standard officially came to an end in 1914 with the outbreak of World War I, but the peg to sterling remained. Indeed, the stability of this regime facilitated Singapore's development as a major rubber processing and trading centre during the first forty years of the 20th century (Chiang, 1978). The peg to the pound was restored in 1945 following the defeat of Japan and expanded when the Board of Commissioners of Currency, Malaya and British Borneo was established in 1952, encompassing Singapore, Malaya, Sarawak, North Borneo, Brunei and the Riau archipelago.

After achieving independence in 1965, Singapore began issuing her own fiat currency in 1967 when the common currency board arrangement was terminated and Singapore set up its own Board of Commissioners of Currency. MAS was established in 1971, the same year President Richard Nixon suspended the convertibility of the US dollar to gold and, in so doing, precipitated the demise of the Bretton Woods system that had existed since 1944. However, the exchange rate continued to act as the nominal anchor for the Singapore economy in the first decade of independence, through retaining the fix to sterling until June 1972, and then to the US dollar until it floated in June 1973. The motives for retaining a fixed

exchange rate remained largely the same as before: to guard against imported inflation and to maintain foreign investor confidence.

In 1973, however, with the move to generalised floating by the major currencies, including the pound and the US dollar, following the first oil shock and heavy market speculation, Singapore reluctantly abandoned its exchange rate peg and began to experiment with a range of traditional monetary policy instruments, including the exchange rate. Since the formal framework for monetary policy was lacking at this time, Singapore's quest for a new nominal anchor began.

The Transition To A New Monetary Regime

Throughout the tumultuous seventies, the intellectual understanding about monetary policy instruments and nominal anchors was evolving. The phenomenon of cost-push inflation due to the two large oil price shocks and an unfamiliar world of flexible exchange rates had caused inflation expectations to become unhinged, which brought about rapid inflation in both developed and emerging economies. Policymakers began to realise that an effective nominal anchor could enhance the conduct of monetary policy by providing a specific target for the chosen policy instrument, provided it had a stable relationship with inflation. Economic agents could then discern the monetary policy stance by referencing the nominal anchor which would, in turn, help tie down their inflation expectations.

However, the experiments with money supply targets in the US and the UK in the late 1970s and early 1980s were not particularly successful. Within a few years, the US Federal Reserve and the Bank of England realised that the relationship between money supply growth and inflation had become unstable and targeting money supply growth had proven infeasible. The Federal Reserve officially stopped announcing money growth targets in 1987 and instead, focused on formalising an interest rate regime that targeted the Federal funds rate as the basis of its monetary policy; a system that it has maintained until

today. The UK belatedly joined the European Exchange Rate Mechanism in 1990, ostensibly to anchor its monetary policy to the highly credible German central bank, but after heavy speculation it was forced to float the pound in 1992 and the Bank of England moved to an interest rate-based monetary policy and a formal inflation target.

Singapore's transition from a fixed to a floating exchange rate in the 1970s mirrored these global developments. During this period, the newly-established MAS conducted monetary policy based on an eclectic checklist of indicators spanning interest rates, exchange rates, the monetary base and loan growth. However, the absence of a clear and transparent nominal anchor or monetary policy instrument during this period may have exacerbated the destabilising effect that the oil shocks of the 1970s had on inflation expectations.

In light of this experience, Dr Goh Keng Swee, who went on to become Chairman of MAS and Deputy Prime Minister in 1980, saw that some degree of influence over the exchange rate would be necessary to curb external inflationary pressures, given Singapore's ultra-open and trade-dependent economy. By 1981, MAS had formally shifted to an exchange rate-based monetary policy framework, managing the Singapore dollar against a trade-weighted basket

of the currencies of her major trade partners, or the Singapore dollar nominal effective exchange rate (S\$NEER). MAS' *Annual Report* for 1981–82 notes that “Underlying this shift in emphasis away from targets for interest rates and money supply growth in the conduct of monetary policy is the view that the exchange rate is a relatively more important anti-inflation instrument in the context of the small and open Singapore economy.”

MAS' decision to adopt an exchange rate-centred monetary policy framework was unprecedented, but was uniquely suited for Singapore. Under this framework, a policy-induced appreciation of the S\$NEER can be used to directly offset imported inflation from abroad, as well as to ease domestic cost pressures indirectly, by dampening demand for Singapore's exports and the derived demand for factor inputs. This turned out to be very successful as Singapore's CPI inflation fell to an average of 2.0% over 1981–2015, compared to 4.1% over 1962–1980.^{1, 2}

In terms of the features of the S\$NEER framework, managing the Singapore dollar against a “basket” of currencies helps to balance the potentially competing needs of importers and exporters operating in different markets, taking into account the changing composition of trade over time. Whilst the system does not depend on a fix to a single currency, the “band” feature in effect constrains the extent to which the S\$NEER can fluctuate, thereby providing some degree of exchange rate stability.³ At the same time, the framework incorporated a “crawl” feature into monetary policy, which allows the pace of S\$NEER appreciation to be adjusted in line with changing economic fundamentals—in particular, the outlook for GDP growth and inflation. Therefore, the monetary policy settings could be altered in line with real economic fundamentals to ensure that the S\$NEER does not persistently deviate from its longer-run equilibrium. This ensures that the necessary adjustments to variables such as output, employment, wages, and prices, are less severe than under a fixed exchange rate system.

The Exchange Rate-based Monetary Policy Framework As A Nominal Anchor

Singapore's transition to an exchange rate-based framework has important implications for the country's search for a nominal anchor. *First, shifting from the currency peg and monetary growth targets meant having to redefine the characteristics of a nominal anchor within Singapore's unique setting.* Arguably, a target growth rate for the money supply could provide clarity and transparency, which the S\$NEER system lacks in comparison. The level of the S\$NEER is not a policy target *per se*, while the policy stance is defined by the parameters of the exchange rate band and not its specific level. Hence, there is no uniquely determined price level, but rather a constrained set of possible

macroeconomic outcomes. The parameters of the policy band—the slope, the width, and the level at which the band is centred, and the currencies making up the trade-weighted basket—are not disclosed. Without this information, it is not immediately apparent how daily shifts in Singapore dollar bilateral exchange rates map to changes in the level of the S\$NEER and to the overall stance of monetary policy.

Second, the S\$NEER framework has come to play the role of the nominal anchor for the Singapore economy. In making the case that Singapore does not need a fixed currency peg, MAS (2001) notes that “the Singapore economy has diversified

¹ Between 1981 and 2015, CPI inflation in Singapore has been consistently below the average annual inflation rate of the OECD economies.

² See also Mihov (2013), who found that for small open economies, such as Singapore, an exchange rate-based monetary policy rule delivers lower volatility in GDP growth and inflation compared to an interest rate regime.

³ Between January 1981 and February 2016, the standard deviation of the trade-weighted S\$NEER was 9.1, well below the Bank of International Settlements' narrow NEER indices for the US\$ (17.9), Japanese yen (17.9), and pound sterling (14.6).

trading links, substantial fiscal surpluses, and a long track record of low inflation ... There is thus little need for a nominal anchor for the SGD to manage inflationary expectations, or for the discipline imposed by the monetary policy of a foreign country—most likely the US—to which the SGD is pegged.” This statement suggests that far from abandoning all notions of a nominal anchor, it is the discipline and credibility imbued in the S\$NEER *framework* that now serves as the nominal anchor for Singapore.

Bernanke and Mishkin (1997) have argued that a nominal anchor, whether explicit or implicit, serves as “a way of reassuring the public that monetary policy would remain disciplined”.⁴ The S\$NEER framework imposes such discipline and helps to constrain the extent of discretion afforded to the central bank, ensuring that monetary policy is aimed at achieving price stability over the medium term. To maintain credibility, MAS cannot adopt inconsistent policies, such as expanding or contracting the domestic money supply, that cause the currency to breach the bounds of the band. Also, while the exact parameters are unknown, the broad parameters of the policy stance are clear and sufficiently transparent to financial markets and the public. MAS has issued Monetary Policy Statements bi-annually since 2001, outlining the adjustments to the policy parameters when the policy stance is changed. For example, in October 2010, when MAS announced a slight increase in the slope of the S\$NEER policy band, financial markets understood that MAS’ intention was to allow the Singapore dollar to gradually appreciate against the currencies of its trading partners in order to dampen inflation. MAS is of the view that such announcements help to align the expectations of market participants with its policy and move the currency in the right direction. In recent years, MAS has also enhanced transparency about some key aspects of monetary policy formulation by publishing data on the S\$NEER more frequently and by releasing the documentation on the Monetary Model of Singapore, which is used to simulate the impact of

monetary policy on the economy.

These qualities help to make monetary policy decisions in Singapore “almost predictable”, as described by MAS Deputy Chairman Minister Lim Hng Kiang (MAS, 2012). Indeed, MAS’ own simulations have shown that, by and large, the monetary policy outcomes have been equivalent to those that would have occurred according to a modified Taylor-type monetary policy rule. (See Box C) The general predictability and discipline underpinning actual monetary policy responses have, therefore, clearly served to enhance the nominal anchor role provided by the exchange rate framework.

Third, having a credible exchange rate framework as the nominal anchor for monetary policy means ruling out opportunistic competitive depreciations in the value of the Singapore dollar to boost exports. By managing the exchange rate to ensure medium-term price stability, MAS has effectively tied its hands and can no longer intervene to reduce the value of the Singapore dollar for competitive purposes. In any case, this would be ineffective in Singapore, given its extreme openness to trade and very high import content of exports, where out of every dollar of final demand, approximately 54 cents is “leaked” abroad in the form of imports.

Fourth, the role of the S\$NEER as a nominal anchor is also to provide the binding link between globally-determined prices and the signals and incentives to local firms to innovate and upgrade the value-added composition of the export basket over time. This is, in effect, how small open economies that are “price-takers” can adjust production and compete effectively in global markets. Should MAS intervene to deliberately offset any loss in cost competitiveness, it would send the wrong signal to exporters and disincentivise them from the structural adjustments necessary to make globally competitive products.

⁴ Mishkin (1999) describes monetary policy with *implicit* nominal anchors, which operate “without using an explicit nominal anchor such as a target for the exchange rate, a monetary aggregate target, or inflation”. The US Fed’s implicit nominal anchor is “an overriding concern by the Federal Reserve to control inflation in the long run” which gives it a coherent monetary policy strategy even when no explicit strategy has been articulated.

Fifth, the S\$NEER framework has allowed the Singapore dollar to appreciate at a stable pace over time, alongside the economy's strengthening fundamentals. This emphasis on preserving confidence through a strong and stable currency has been a recurring theme in Singapore's economic history. For example, MAS (2000) observes that "throughout history, Singapore has sought to maintain confidence in the value of its currency as a means to buttress its image as [a] regional trading centre". In 1902, the Singapore Chamber of Commerce recognised that foreign investors would be deterred from investing in Singapore if the value of their investments were to be eroded by a depreciating currency. By the same token, a stable and predictable exchange rate enables firms to plan production and manage revenues and costs more effectively, and helps reduce the transactional costs associated with hedging against sharp exchange rate movements.

A strong and stable Singapore dollar has also been a proximate enabler of financial centre development, as it testified to the credibility of government policies and bolstered the sense of integrity, soundness, and stability that are so critical to the flourishing of a financial centre. Former Prime Minister Lee Kuan Yew (2000) highlighted the role of Singapore's strong currency, noting that "the foundations for our financial centre were the rule of law, an independent judiciary, and a stable, competent and honest government that pursued sound macroeconomic policies, with budget surpluses almost every year. This led to a strong and stable Singapore dollar, with exchange rates that dampened imported inflation."

Sixth, the exchange rate framework has been faced with challenges in recent years, but remains "fit for purpose" as a nominal anchor for monetary policy. In the years following the GFC, a number of developments have altered key relative prices in the domestic economy and shifted the structure of production. Ultra-low interest rates imported from abroad led to rising asset prices, especially for property, which was reflected in higher CPI inflation. At the same time, the policy shift towards productivity-driven growth and a reduction in the reliance on cheap foreign labour since 2010 has resulted in stronger

wage growth. Singapore has also been rapidly evolving towards the provision of higher value-added services.

Despite these structural shifts, the evidence suggests that the present monetary policy remains "fit for purpose" (Menon, 2013). Empirical studies by MAS suggest that inflation would have been higher in the absence of a tighter exchange rate policy. Although inflation was driven, in large part, by rising imputed rentals on owner-occupied accommodation and the cost of private road transport, the appreciating exchange rate successfully dampened price increases in the broader consumption basket, and served to "temper but not fully offset" the inflationary pressures arising from the economic restructuring process. Moreover, although the economy had become more services-based, many of these activities are tradable and, therefore, sensitive to exchange rate movements.

MAS also adopted complementary tools to buttress the role of the exchange rate as the nominal anchor. Specifically, a number of macroprudential measures have been introduced to stabilise the property market and thereby to anchor inflation expectations, despite the low-interest rate environment. For example, MAS has reduced the loan-to-valuation ratio on mortgages for non-owner occupied homes, and imposed a 60% debt service-to-income ratio for borrowers intending to take out a mortgage. These measures have been fairly successful in bringing about a soft-landing in the property market. With macroprudential measures as an "add-on", the exchange rate-centred monetary policy framework can continue to focus on fulfilling its role as a nominal anchor for the Singapore economy.

Conclusion

Despite global events outside her control, pragmatism led Singapore to adopt the S\$NEER-based monetary policy framework in the early 1980s, which has provided an effective nominal anchor for the economy and facilitated rapid growth, alongside low and stable inflation. Global monetary history tells us that there is nothing inherently “anchored” about the nominal anchor itself, even though in Singapore’s case, the exchange rate has performed this function for the most part of her economic history.

However, as Robinson (2001) puts it, the exchange rate system in Singapore can be viewed as “a ‘monetary overlay’ on the real economy foundations”. The past success of MAS’ exchange rate framework, and its future ability to remain fit for purpose as a nominal anchor, will depend critically on there being a firm bedrock of solid macroeconomic fundamentals, such as sound fiscal finances, a strong external position, and a steadily growing economy.

Box C

A Model-based *Ex-post* Evaluation Of Singapore’s Monetary Policy

This Box uses a model-based simulation methodology to evaluate Singapore’s monetary policy decisions on an *ex-post* basis. The approach follows the recent work by Argov *et al.* (2015), who utilised the Bank of Israel’s dynamic stochastic general equilibrium (DSGE) model, MOISE, to analyse the central bank’s monetary policy decisions over the period 2001–11. Specifically, they examined whether actual monetary policy decisions had led to a Pareto improvement—in terms of lower inflation and output volatility—as compared with a rules-based policy regime. The method entails generating counterfactual outcomes for inflation and output gap volatility in the model, in which the paths of policy rates are allowed to differ from their actual trajectories in a given year. Besides offering a way to assess the Pareto-efficiency of actual policy decisions, this can also provide useful insights for policymakers on an *ex-post* basis, even though monetary policy decisions are implemented *ex-ante*.

To evaluate MAS’ monetary policy decisions over the period 2002–14^{1/}, the Argov *et al.* (2015) method was implemented in EPG’s small-scale DSGE model, the Satellite Model of Singapore (SMS). In this model, rules-based monetary policy is specified by the following modified Taylor rule^{2/}:

$$\dot{NEER}_t - \overline{\dot{NEER}}_t = \gamma_1 \left(\dot{NEER}_{t-1} - \overline{\dot{NEER}}_{t-1} \right) + (1 - \gamma_1) \left\{ \gamma_2 (\pi_{t+3} - \bar{\pi}) + \gamma_3 \left(NEER_t - \overline{NEER}_t \right) + \gamma_4 Y_t \right\} + \varepsilon_t^{\dot{NEER}}$$

where *NEER* is defined as the logarithm of the nominal trade-weighted exchange rate index, π denotes the inflation rate and *Y* denotes the output gap. The bar denotes the trend (unobserved) component while the dot notation refers to the growth rates of the respective terms. This specification differs slightly from the rule in Parrado (2004) in that the conduct of monetary policy takes into account the deviation of the exchange rate from its long-run equilibrium, in addition to the standard output and inflation gaps.

Specific policy decisions are evaluated by calculating the root mean squared errors (RMSE) of historical inflation and output gaps over a period of eight quarters: four quarters of actual outcomes, followed by another four quarters of model-simulated outcomes. The steps involved are as follows.

1. *Estimate the historical shocks.* The SMS is estimated over the period Q1 1994 to Q3 2015 using Bayesian techniques to recover the historical shocks affecting all macroeconomic variables in the model. These historical shocks include a vector of monetary shocks for all periods, which represents the discretionary component of monetary policy decisions over the estimation period.

^{1/} MAS began actively communicating its monetary policy decisions in October 2001. Since then, a Monetary Policy Statement is released twice a year—in April and October. Hence, for the purpose of this study, the sample period begins at 2002 to take into account the shift towards greater transparency in monetary policymaking.

^{2/} For more details on the SMS, please refer to Monetary Authority of Singapore (2014; 2011).

2. *Run the actual policy simulation and calculate the associated RMSE.* Following Argov *et al.* (2015), the period of evaluation is taken to be a full policy year. As MAS policy decisions are announced in April and October, the period of evaluation was shifted by one quarter so that the full policy year begins in Q2 of a given calendar year and ends in Q1 of the following year. The SMS is simulated by applying the full set of historical shocks for the first year to capture the outcomes based on actual policy. In the subsequent year, all historical shocks are set to zero. The RMSE statistics are then calculated using the combined observations in the two years.
3. *Run a Taylor rule counterfactual simulation and calculate the associated RMSE.* A counterfactual solution is obtained in which the SMS is simulated with the monetary shocks set to zero for the year under evaluation while retaining all the other historical shocks. All historical shocks are again set to zero in the subsequent year. The results are then used to compute the RMSE of the inflation and output gaps, which can be interpreted as the outcomes that would have resulted had MAS adhered strictly to the Taylor rule.

Chart C1
Actual Policy and Taylor Rule-based Policy over 2002–14

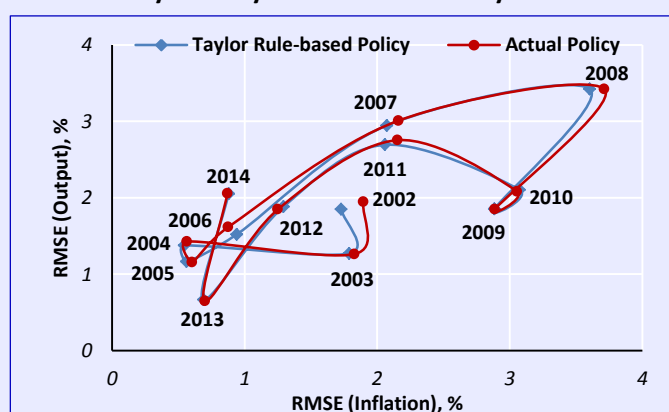


Chart C1 plots the RMSE of the output and inflation gaps for the actual outcomes (red) as well as the Taylor rule counterfactuals (blue) over the period 2002–14. For any given year, the actual outcomes can be deemed to be Pareto-improving if they are associated with lower RMSE values than those for the rules-based outcomes. Two findings are noteworthy. First, the RMSE for actual output and inflation gaps do not appear to differ significantly or systematically from the Taylor rule counterfactuals. Over the entire sample period, these differences average about 0.02% point in each case, compared to the mean of about 1.9% for the actual RMSE. The implication is that MAS’ policy decisions have been generally disciplined and predictable, as the central bank had adhered closely to a Taylor rule.

Second, the RMSE outturns appear to be primarily driven by external macroeconomic conditions. Indeed, the largest observed volatility for the output and inflation gaps occurred over the period 2007–08, which coincided with the 2008 spike in global inflation stemming from supply shocks to commodity markets, in particular, food and oil. Moreover, the differences in the output gap and inflation gap RMSE statistics between the actual and counterfactual outcomes were relatively large in these two years.

The deviation of actual outcomes from their Taylor rule counterparts reflects the fact that MAS took into account other important considerations that surfaced in 2007–08. While MAS tightened policy at the end of 2007 and the beginning of 2008, it was by less than required by the Taylor rule. The dampened response reflects the conscious decision by MAS to accommodate, among other things, the uncertainty arising from the US subprime crisis at that time. A more aggressive stance would have made the economy vulnerable in the event of a sharp and sudden decline in the external economy—which did materialise in the second half of 2008. A similar policy deviation from the rule occurred in 2011. In this instance, the smaller-than-predicted tightening of the monetary policy stance was a measured move to “temper but not fully offset” the pass-through of supply-driven cost increases amid the ongoing restructuring in the economy, while anchoring inflation expectations and keeping growth on a sustainable path.

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