APPENDIX I
MAS Monetary Policy Statements

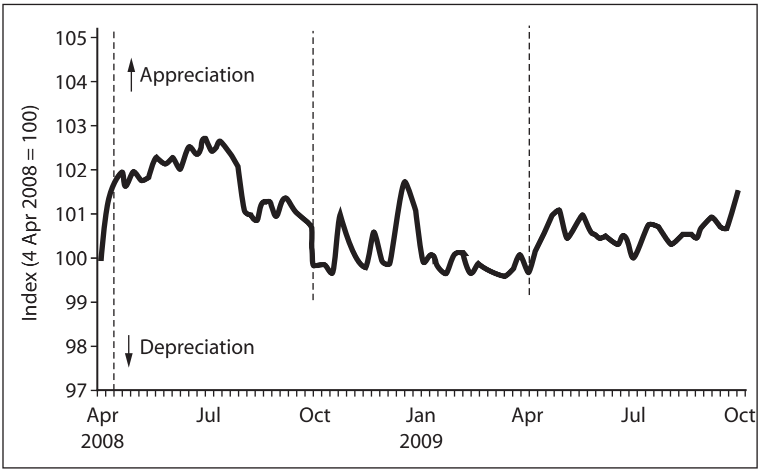
Date: 12 October 2009

Introduction

1. In April 2009, MAS re-centred the exchange rate policy band downwards to the prevailing level of the SG$NEER, while maintaining the zero per cent appreciation path which was adopted in October 2008. This decision was made against the backdrop of dissipating inflationary pressures and weak growth prospects for the Singapore economy in the midst of the global financial crisis.
2. Since the last policy review, the S$NEER (Figure 1) has fluctuated in the upper half of the policy band. This reflected the broad-based weakness in the US$ since the end of the first quarter, as well as strong capital inflows to the region. The domestic three-month interbank rate has remained at 0.69 per cent over the past six months, amidst low global interest rates.

FIGURE 1

Nominal Effective Exchange Rate (SG$NEER)



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Outlook for 2009 and 2010

3. Following the sharp contractions in Q4-2008 and Q1-2009, the Singapore economy rebounded strongly by 22 per cent on a quarter-on-quarter seasonally adjusted annualised (q-o-q SAAR) basis in Q2-2009. The easing of global financial conditions and inventory restocking had benefited the domestic financial market and manufacturing activity. According to the Advance Estimates released by the Ministry of Trade and Industry today, Singapore's GDP expanded by a further 14.9 per cent q-o-q SAAR in Q3-2009, with a broad range of industries across both the manufacturing and services sectors registering positive growth. Reflecting

the better-than-expected outcome, Singapore's GDP growth forecast for 2009 has been revised upwards to between –2.5 per cent and –2 per cent, from –6 per cent to –4 per cent.[1]

4. Looking ahead, the economy is not expected to sustain the strong pace of expansion seen in Q2-Q3-2009. While prospects for the external economies have improved, final demand in Singapore's key export markets, including for IT products, has yet to recover decisively. Significant challenges remain in the transition to private sector–driven growth as governments prepare to exit from their expansionary policies. Household spending, particularly in the US, continues to be constrained by the weak labour market, sluggish income growth, and lower housing wealth. Businesses also remain cautious in their investment decisions. Against this backdrop, the Singapore economy is likely to settle at a more gradual pace of expansion. GDP growth in 2010 is expected to be slower than in previous post-recession periods.
5. The domestic CPI inflation rate averaged –0.5 per cent year-on-year over the period from April to August 2009. With the recovery in global oil prices, consumer prices picked up in July and August on a sequential basis, following two consecutive quarters of decline. Meanwhile, domestic cost pressures such as rentals and wages have come down significantly in response to the economic downturn. For the rest of 2009 and into 2010, CPI inflation will continue to be driven by external factors, especially higher oil and food commodity prices in world markets. In

comparison, domestic sources of inflationary pressures will be restrained by subdued factor costs, reflecting the temporary slack in the labour market and upcoming supply of commercial space. Nevertheless, these costs are expected to pick up in the latter half of next year as the recovery progresses. CPI inflation is likely to be around 0 per cent in 2009, before rising to 1–2 per cent in 2010. The MAS underlying inflation measure, which excludes accommodation and private road transport costs, is expected to come in around the same range.[2]

Monetary Policy

6. Against continuing weakness and uncertainties in the external economic environment, the strength of the recovery in the Singapore economy is expected to be moderate beyond the initial uplift. While there could be some upward pressures on consumer prices emanating from higher global oil and food prices, underlying domestic cost pressures will be contained.
7. MAS will therefore maintain the current policy stance of a zero per cent appreciation of the SG$NEER policy path. There will be no change to the width of the policy band and the level at which it is centred. MAS will continue to be vigilant over developments in the external environment including the medium-term risk of stronger global inflationary pressures.

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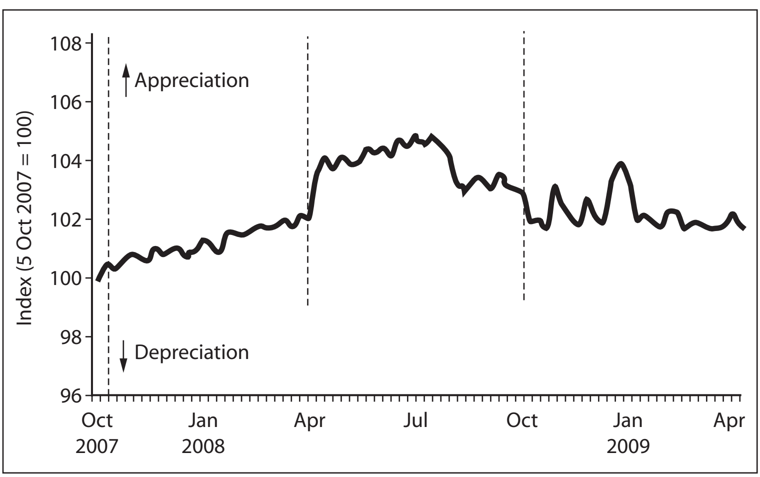
Date: 14 April 2009

Introduction

1. In October 2008, MAS shifted its policy stance to a zero per cent appreciation of the SG$NEER policy band. The decision was taken amidst easing external and domestic inflationary pressures, and a weakening global economic environment.
2. Since the last policy review, the SG$NEER (Figure 2) has largely fluctuated in the lower half of the policy band. This reflected a number of factors, including the

FIGURE 2
Nominal Effective Exchange Rate (SG$NEER)



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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 per cent in September 2008 to 0.69 per cent at end-March 2009.

Outlook for 2009

3. The Singapore economy recorded a broad-based contraction of 16.4 per cent 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 per cent 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 per cent and –6 per cent.

5. In the meantime, CPI inflation has slowed significantly to 2.4 per cent year-on-year in Jan-Feb 2009, from 5.4 per cent 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 per cent to 0 per cent.[3]

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 SG$NEER is appropriate for maintaining domestic price stability over the medium term, taking into account the prospects for growth in the Singapore economy. MAS will therefore re-centre the exchange rate policy band to the prevailing level of the SG$NEER, while keeping the zero per cent 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.

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Date: 10 October 2008

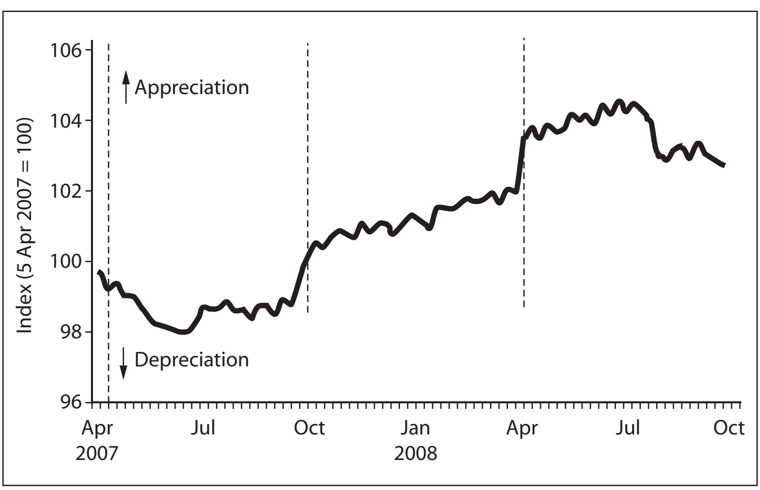
Introduction

1. MAS has maintained the policy of a modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (SG$NEER) policy band since April 2004. In October 2007, the policy was tightened through a slight increase in the slope of the band, following which the policy band was re-centred at the

then-prevailing level of the SG$NEER in April 2008. The policy stance has helped to mitigate inflationary pressures amidst sustained economic growth and rising global commodity prices.

2. The SG$NEER had fluctuated in the upper half of the policy band between April and July 2008, before easing since August against a broad-based strengthening of the US$. (Figure 3) The pull-back of the SG$NEER also reflected heightened domestic growth concerns and a moderation of inflationary pressures.
3. Meanwhile, domestic interbank rates edged lower in tandem with the stronger SG$ following the April

FIGURE 3
Nominal Effective Exchange Rate (SG$NEER)



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monetary policy announcement. More recently, the strain in global money markets caused the domestic three-month interbank rate to increase temporarily, but it has since eased to 1.88 per cent at end-September.

Outlook for 2008 and 2009

4. The Singapore economy has weakened over the course of 2008, alongside an escalation in the turmoil in financial markets and a more severe deceleration in global economic activity. The Advance Estimates released by the Ministry of Trade and Industry today show that Singapore's GDP declined by 6.3 per cent on a quarter-on-quarter seasonally adjusted annualised basis in Q3-2008. On a year-ago basis, activity also contracted mildly. The slowdown was generally broad based as external shocks were transmitted to the domestic economy via both the financial and trade channels. Nonetheless, certain industries, such as transport & storage, information and communications, and bank intermediation, continued to hold up, providing some support to GDP growth.
5. Looking ahead, the outlook for the global economy has deteriorated amidst heightened risk aversion and deleveraging in the financial sector. After a brief rebound in Q2-2008, economic conditions in the US have worsened as the effects of the fiscal stimulus package dissipated. The Japanese and Eurozone economies contracted in Q2-2008 and near-term conditions remain difficult. Economies in

Asia, including China and India, are also expected to slow.

6. These developments have presented new uncertainties for the Singapore economy. The risks to external demand conditions continue to be on the downside, and a more severe global downturn cannot be discounted. Slower growth in Asia will restrain activity in a range of services industries in Singapore such as transport-hub and tourism. Against this less favourable environment, Singapore's GDP growth forecast for 2008 has been revised from 4–5 per cent to around 3 per cent. Economic growth will likely remain below its potential rate over the next few quarters. Prospects of a recovery in the latter half of 2009 will depend significantly on how conditions evolve in the G3 and regional economies.
7. CPI inflation has peaked, declining from 7.5 per cent in Q2-2008 to 6.5 per cent in July-August on a year-on-year basis. In addition, it has fallen on a quarter-on-quarter basis, easing from 2.1 per cent in Q1 to 1.4 per cent in Q2 and 1.1 per cent in July-August. The sequential fall in CPI inflation reflects a moderation of both external and domestic price pressures. Externally, the recent sharp decline in commodity prices has helped to dampen global inflation. Domestically, the effects of past monetary policy tightening measures and the slowing economy have alleviated price pressures and eased resource constraints. Cost pressures have begun to recede, as evidenced by the recent fall in commercial rentals and more subdued wage increases.

8. CPI inflation is projected to come within the 6–7 per cent forecast range in 2008, while the MAS underlying inflation measure, which excludes accommodation and private road transport costs, is expected to be 5–6 per cent. Over the coming months and into early 2009, the headline inflation rate will continue to be impacted by the pass-through of some earlier domestic cost increases. Nevertheless, CPI inflation is expected to trend down in 2009 as the global and domestic economies slow and for the year as a whole it is forecast to moderate to 2.5–3.5 per cent, with the MAS underlying inflation coming down to around 2 per cent.

Monetary Policy

9. Against the backdrop of a weakening external economic environment and continuing stresses in global financial markets, the growth of the Singapore economy is expected to remain below potential in the period ahead. Concomitantly, external and domestic inflationary pressures are likely to ease.
10. MAS is therefore shifting its policy stance to a zero per cent appreciation of the SG$NEER policy band. This policy maintains the current level of the policy band, and there will be no re-centring of the band or change to its width. MAS stands ready to intervene to dampen excessive volatility in the SG$NEER should this become necessary. MAS will also continue to closely monitor developments in the external environment and their impact on the Singapore economy.

Notes

1. The 2009 GDP growth forecast was revised to –6 per cent to –4 per cent during the release of Advance Estimates for Q2 2009 GDP on 14 Jul 2009.
2. This forecast does not take into account any potential revision to the HDB Annual Value (AV), which would impact the headline CPI inflation forecast, but not that of the MAS underlying inflation rate.
3. The 2009 CPI inflation forecast was revised to –1.0 per cent to 0 per cent at MTI's Annual Economic Survey media briefing on 21 Jan 2009.