Monetary Policy Statements | Published Date: 14 April 2021

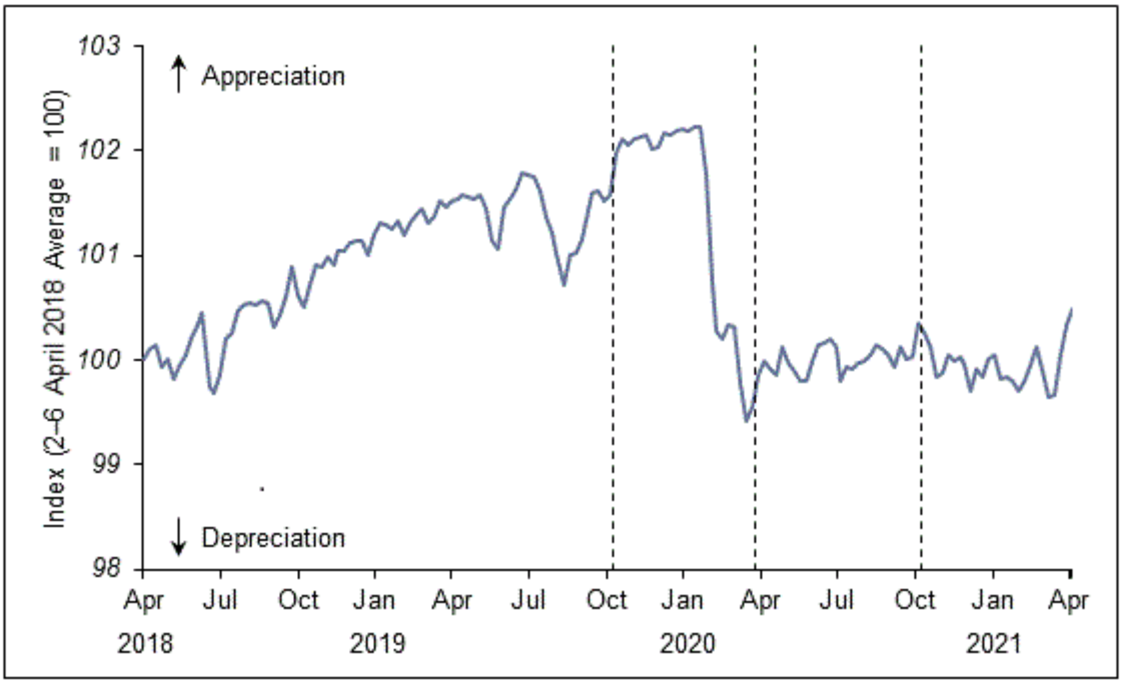
MAS Monetary Policy Statement - April 2021

14 April 2021

INTRODUCTION

1. In its October 2020 Monetary Policy Statement, MAS kept the rate of appreciation of the S$NEER policy band at zero percent per annum, with no change to the width of the policy band or the level at which it was centred. This policy stance was assessed to be appropriate in view of the weak outlook for core inflation. While core inflation was expected to rise and gradually turn positive this year, it would stay well below its long-term average.

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



----- indicates last three releases of Monetary Policy Statement

2. Over the last six months, the S$NEER has fluctuated slightly above the mid-point of the policy band. The S$NEER has appreciated modestly, reflecting in part the strengthening of the S$ against most reserve currencies as global risk sentiment improved. The three-month S$ SIBOR was broadly unchanged at 0.4%.

OUTLOOK

3. Prospects for global growth have firmed and should provide support to the ongoing recovery in the Singapore economy. Nevertheless, output will still be below potential in 2021. Although MAS Core Inflation is expected to rise gradually this year from its current low levels, it will remain short of its historical average.

Growth Backdrop and Outlook

4. *Advance Estimates* released by the Ministry of Trade and Industry today indicated that the Singapore economy expanded by 2.0% on a quarter-on-quarter seasonally-adjusted basis in Q1 2021, moderating from the 3.8% growth in Q4 2020. The sequential slowdown in Q1 was largely driven by the construction sector, where activity continued to be capped by safe distancing measures at worksites. In comparison, the manufacturing sector reverted to positive growth on the back of a rebound in pharmaceutical output. On a year-ago basis, GDP rose marginally by 0.2% in Q1, after three consecutive quarters of decline.

5. Since October last year, prospects for the global economy have improved, reflecting substantial additional fiscal stimulus in some economies and a steady pace of vaccine deployment across several major nations. These developments have underpinned a marked strengthening in business and consumer confidence, which has started to feed through to a more rapid expansion in production and spending.

6. The upturn in external demand will sustain an above-trend pace of growth in the Singapore economy for the rest of 2021. Activity in the trade-related and modern services sectors should expand at a firm pace. However, the virus is unabated in many regions and international mobility restrictions will continue to hinder the recovery in travel-related services.

7. Singapore's GDP growth this year is likely to exceed the upper end of the official 4–6% forecast range, barring a setback to the global economy. The negative output gap in the economy will narrow through the course of 2021. However, significant uncertainties remain, including the possibility of further virus mutations and premature relaxation of social restrictions by governments, which could derail the global and domestic recovery.

Inflation Trends and Outlook

8. MAS Core Inflation, which excludes the costs of accommodation and private transport, rose marginally to 0% year-on-year in January–February 2021, from −0.2% in Q4 2020. This mainly reflected the fading disinflationary effects of government subsidies on healthcare and education services introduced in H1 2020. At the same time, inflation in most components of the core CPI basket was modest. Food inflation moderated while prices of most retail goods continued to fall. Meanwhile, private transport inflation turned positive and residential rents registered larger increases on a year-ago basis. As a result, CPI-All Items inflation rose to 0.5% from −0.1% over the same period.

9. Core inflation is expected to step up in the months ahead, reflecting in part the low base from the fall in prices in Q2 last year and the turnaround in producer price inflation in a number of major economies. Notwithstanding some upside risks to global price pressures, inflation in Singapore is projected to rise at a more gradual pace in H2 2021. While higher global oil prices will continue to pass through to domestic prices, surplus oil production capacity should cap further large price increases. Lingering negative output gaps in a number of Singapore's key trading partners should also keep overall imported inflation contained. Domestically, more components of the core CPI basket are likely to see price increases as labour market conditions improve and private consumption recovers. However, these would be gradual, in line with subdued wage growth as the slack in the labour market will take time to be fully absorbed. Commercial property rents should also remain low. All in, beyond the near-term pickup, MAS Core Inflation is forecast to rise only gradually for the rest of the year and come in at 0–1% in 2021.

10. Private transport and accommodation costs have risen by more than expected in the first two months of the year, reflecting in part the effects of higher petrol prices and firm demand for cars and rental accommodation. Amid improvements in consumer sentiments, as well as the effects of reduced COE quotas, private transport costs should stay resilient. MAS is revising the forecast range for CPI-All Items inflation in 2021 to 0.5–1.5%, from −0.5 to 0.5% previously.

MONETARY POLICY

11. The Singapore economy will grow at an above-trend pace this year, but the sectors worst hit by the crisis will continue to face significant demand shortfalls. As the negative output gap narrows, core inflation should rise gradually from its current subdued levels but remain below its historical average.

12. MAS will therefore maintain a zero percent per annum rate of appreciation of the policy band. The width of the policy band and the level at which it is centred will be unchanged. As core inflation is expected to stay low this year, MAS assesses that an accommodative policy stance remains appropriate.

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