

Introduction to Singapore's Monetary Policy

Singapore's monetary policy is unique, focusing on managing the **exchange rate** rather than traditional interest rates.

The **Monetary Authority of Singapore (MAS)**, acts as the central bank, ensuring price stability for sustainable economic growth.

This approach is tailored to Singapore's small, open, and trade-reliant economy, where the exchange rate has a more significant impact on inflation.



Why Exchange Rate Instead of Interest Rates?

Singapore is a **small and highly open economy**, where trade plays a dominant role.

Gross exports and imports of goods and services are **more than 300% of its GDP**, and domestic expenditure has a high import content.

In such an economy, the **exchange rate has a much stronger influence on inflation** than domestic interest rates.

For example, an appreciation of the Singapore dollar reduces the cost of imported goods, thereby dampening inflation.



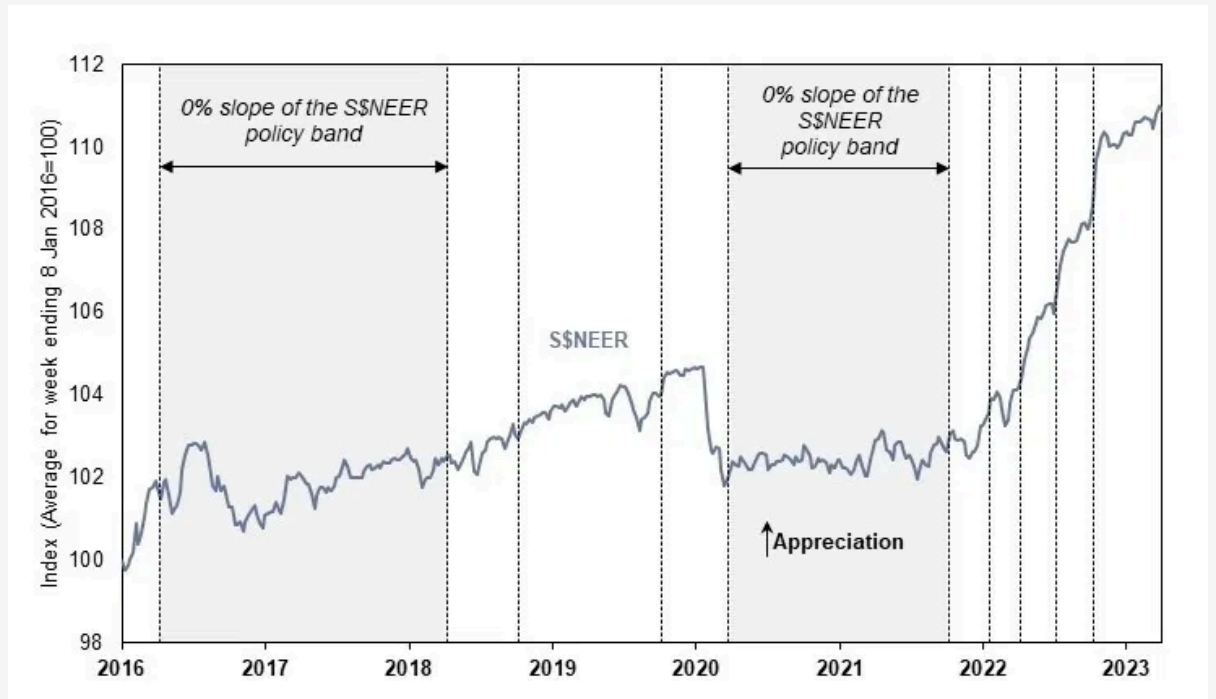
The S\$NEER Policy Framework

The **Singapore Dollar Nominal Effective Exchange Rate (S\$NEER)** is a combined index of bilateral exchange rates.

It represents the Singapore dollar against a **trade-weighted basket of currencies** of its major trading partners.

Weights are assigned based on the **importance of trade relationships** with each country.

This allows the Singapore dollar to perform collectively in relation to its major trading partners, which is crucial for **general price levels** in Singapore.



The Policy Band Mechanism

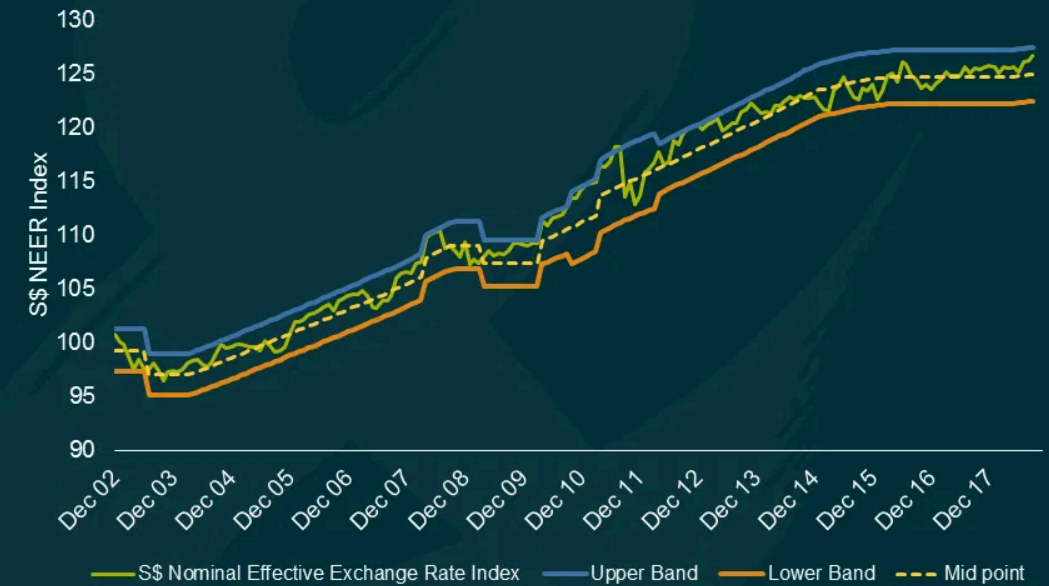
MAS does not set a precise level for the exchange rate. Instead, the S\$NEER is allowed to move within a **policy band**.

The exact levels of this policy band are **not disclosed** to the public.

If the S\$NEER moves **outside this band**, MAS intervenes by buying or selling Singapore dollars.

This intervention ensures the S\$NEER remains within the desired range, maintaining **price stability**.

Singapore Dollar trade weighted NEER over time
S\$ NEER including estimates for policy band



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Source: M&G, Monetary Authority of Singapore, Bloomberg; upper and lower bands estimated by Goldman Sachs; 12th October 2018



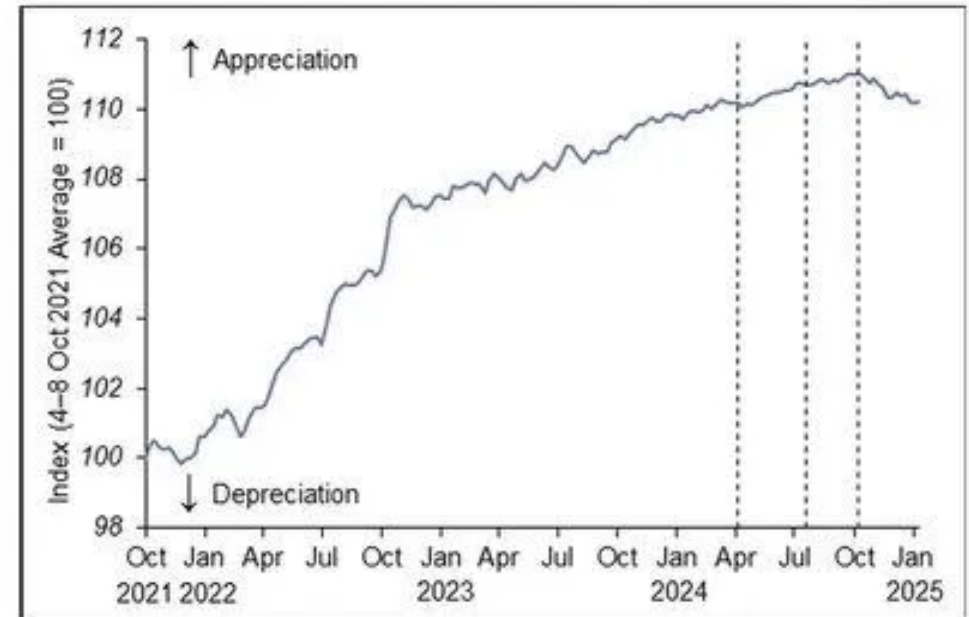
Three Policy Levers

MAS adjusts three key parameters of the S\$NEER policy band:

- The **Slope**: Influences the pace at which the Singapore dollar strengthens or weakens.
- The **Level (Mid-point)**: Allows for an immediate strengthening or weakening of the S\$NEER, used in drastic situations like a recession.
- The **Width**: Determines the allowable volatility of the S\$NEER.

These parameters are reviewed at least **twice a year**, typically in April and October, with additional reviews if conditions demand immediate change.

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



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

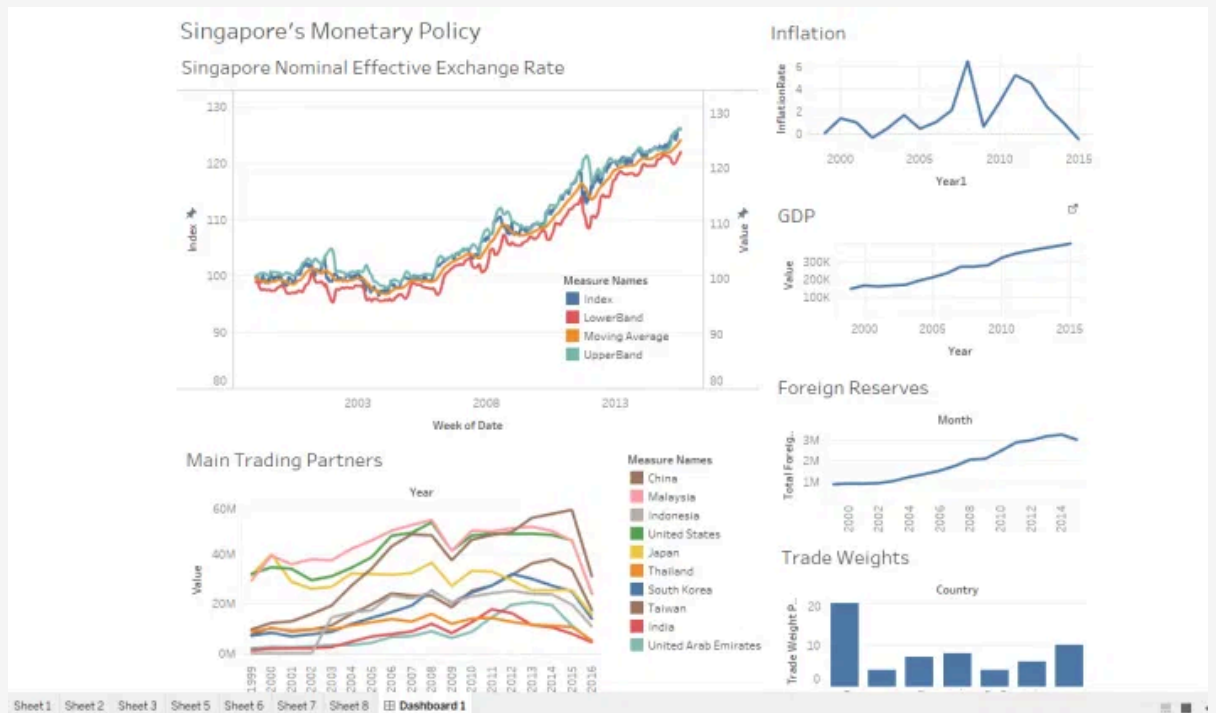
Policy Implementation

MAS implements its monetary policy primarily through **intervention operations** in the spot foreign exchange (FX) market.

This involves the **sale or purchase of US dollars against the Singapore dollar**, as the S\$-US\$ pair is the most liquid.

These operations directly influence the S\$NEER to keep it within the policy band.

The policy parameters are reviewed at least **twice a year** (typically April and October), with additional reviews possible if economic conditions warrant immediate changes.



Effectiveness in Controlling Inflation

Singapore's exchange rate-centered monetary policy has been highly effective in **maintaining price stability**.

By managing the S\$NEER, MAS directly influences the cost of imports, which are a significant component of domestic consumption and production.

This approach has allowed Singapore to achieve **low and stable inflation rates** over the long term, even amidst global economic fluctuations.

International Monetary Fund (IMF) studies have consistently affirmed the effectiveness of this unique framework in delivering domestic price stability.



Advantages and Disadvantages

Advantages

- **Effective Inflation Control:** Direct impact on import prices, crucial for a trade-dependent economy.
- **Price Stability:** Has consistently delivered low and stable inflation rates.
- **Supports Sustainable Growth:** Provides a stable economic environment for businesses.

Disadvantages

- **Limited Interest Rate Control:** Domestic interest rates are largely determined by global markets.
- **Export Competitiveness:** A stronger currency can make exports more expensive, potentially impacting competitiveness.
- **Less Direct Control over Domestic Demand:** Focus on exchange rate means less direct influence on domestic spending.

Conclusion

Singapore's monetary policy stands out globally due to its **exchange rate-centered approach**.

The **S\$NEER policy band**, managed by MAS, is the primary tool for maintaining price stability in a highly open economy.

This unique framework, with its three adjustable levers (slope, level, and width), has proven **highly effective in controlling inflation** and fostering sustainable economic growth.

While it differs from traditional interest rate policies, it is well-suited to Singapore's economic structure and has consistently delivered its objectives.