Singapore's central bank eases policy; potential for further easing in 2025

Weaker growth and inflation have prompted the Monetary Authority of Singapore to ease pre-emptively

View of the Monetary Authority of Singapore (MAS) building in Singapore

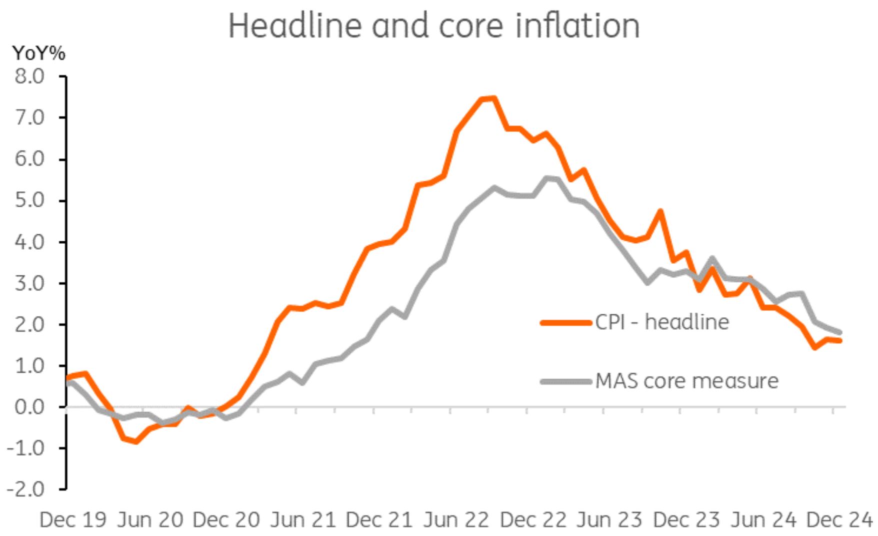
The Monetary Authority of Singapore (MAS) eased monetary policy for the first time in almost five years by reducing the slope of the S$NEER policy band "slightly", primarily driven by a faster-than-expected fall in core inflation below 2% on a sustainable basis. There was no change to the width of the policy band or the level at which it is centred. With mention of a "slight" reduction in slope and "modest and gradual appreciation" in the monetary policy statement, we gauge that the slope is reduced to 1.0%/annum vs 1.5%/annum earlier, with a bandwidth of +/- 2% from the mid-point.

While the market was split over the timing of the easing between January and April, we think the signs of a definite turn in the economic cycle prompted the MAS to pre-emptively loosen policy in line with our expectations. As a reminder, MAS implements monetary policy by managing the Singapore dollar nominal effective exchange rate within a policy band instead of tweaking interest rates.

The strong growth and inflation picture that the economy witnessed in 2024 has turned sharply and we expect GDP growth to slow down in the second half of this year, driven by slower global and export growth. Core CPI inflation moderated to a three-year low of 1.9% year-on-year in November from 2.1% in October. MAS core inflation is now forecast to average 1.0–2.0% in 2025, lower than the 1.5–2.5% projected in the October 2024 statement, driven by lower import prices partly because of lower oil and food prices and partly because of a relatively stronger local currency. Easing labour market conditions and likely higher government subsidies on healthcare, education and transport should exert downward pressure on CPI.

Looking ahead, we think MAS inflation numbers incorporate some of the key downside risks to inflation, including a disinflationary impact of US tariffs. In line with our view of China overcapacity creating disinflationary forces for the region, we think risks to MAS' CPI and GDP growth forecasts are tilted to the downside and we therefore do not rule out another round of easing in the second half of 2025. We also expect the trading range of SGD NEER to drift lower in 2025 driven by slower growth and inflation.

Inflation has eased significantly



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