Singapore's central bank maintains policy settings as growth slows

The Monetary Authority of Singapore kept policy settings untouched after GDP growth missed expectations

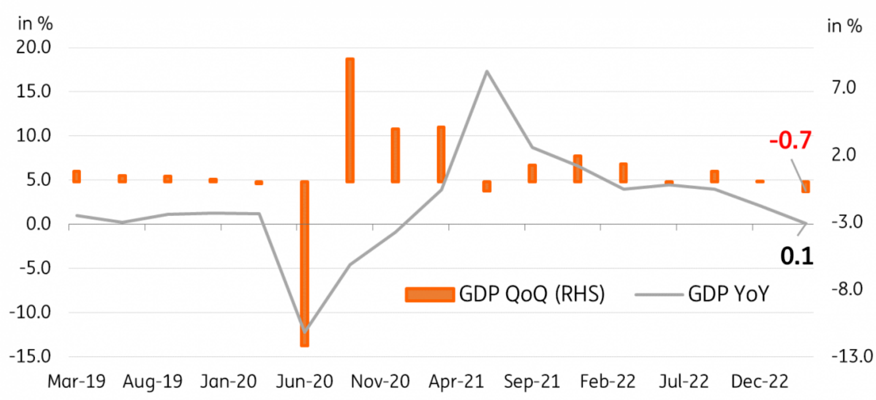
The Monetary Authority of Singapore building

First quarter GDP contracts by 0.7%

Singapore's economy slowed in the first three months of 2023, contracting by 0.7% from the previous quarter. First quarter GDP eked out a 0.1% year-over-year gain but GDP growth took a considerable hit due to slowing global trade, resulting in five consecutive months of contracting non-oil domestic exports and industrial production.

Meanwhile, domestic economic activity appears to have been weighed down by still elevated inflation, with the latest core inflation reading at 5.5% year-over-year. The Monetary Authority of Singapore (MAS) expected full-year growth to settle between 0.5-2.5% for the year given the twin challenges faced by Singapore.

Singapore 1Q GDP hit by softer global trade and weaker retail sales



Source: Singapore Department of Statistics

MAS retains policy settings in balancing act

As expected, the MAS opted to maintain current policy settings, retaining the slope, the width and the mid-point of the policy band. We believed that MAS would need to strike a balance between fighting off inflation while also remaining cognisant of slowing economic growth. The MAS did however push up its expectation for both core and headline inflation by a full percentage point, with the latest forecast at 3.5-4.5% for core and 5.5-6.5% for headline inflation.

The MAS indicated that the current policy band was “sufficiently tight” and that core inflation would ease “materially” by year-end. After the string of tightening which began in late 2021, we believe the follow-through impact of policy actions will continue to filter through the economy to keep price pressures at bay, allowing the MAS to maintain policy settings for the rest of the year.