Singapore: MAS wastes little time, tightens policy after inflation surprise

The Monetary Authority of Singapore (MAS) has tightened policy in a surprise move to combat accelerating inflation

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MAS to "slightly" raise the rate of appreciation of its NEER policy band

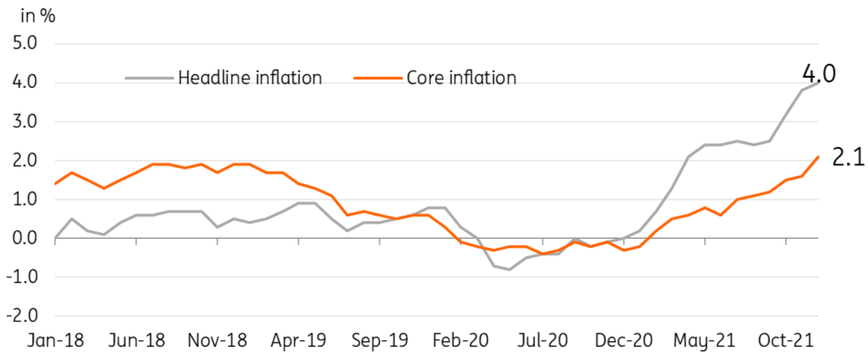
In a surprise move today, the Monetary Authority of Singapore (MAS) announced further policy tightening, a few months ahead of one of its bi-annual scheduled meetings (April and October) when policy changes are normally implemented.

The MAS announced a slight increase in the rate of appreciation of its Nominal Effective Exchange Rate (NEER) policy band on Tuesday. But it announced that the mid-point and width of the current band would be unchanged, at least for now. This is the second time the MAS has tightened policy in the last four months.

The MAS announcement came a day after inflation clocked in at the highest level since early 2013, a development that clearly pressured them to consider some action. The MAS indicated that reworked inflation forecasts showed core inflation surging to as high as 3% by mid-year (2.1%

currently). Price pressures are currently driven by a mix of supply-side constraints and improving domestic demand conditions. Growth is expected to moderate but remain robust in 2022 with the MAS keeping its 3-5% forecast for the year.

Surging inflation prompts pre-emptive MAS tightening



Source: Singapore Department of Statistics

More to come?

The MAS has clearly decided on the merits of moving early. This latest tightening could be considered a pre-emptive strike to snuff out escalating price pressures. Recently announced supply-side measures to quell price pressures are likely not sufficient on their own to slow accelerating inflation, especially with robust growth projected for the year.

However, this front-loaded action does not rule out further tightening at the April meeting. The MAS will be closely monitoring inflation trends in the coming months to gauge whether more aggressive tightening will be warranted. Our USD/SGD forecasts are under review and we will also need to reassess our expectations for the MAS April policy meeting, though the chances of further tightening then look to be rising.