

Communication and Monetary Policy: The Case of Singapore

Regional Seminar for Central Bank Communications Directors
from Emerging Asia

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23-24 Jan 2006

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- I. Exchange Rate Policy in Singapore
- II. Transparency Initiatives and Their Impact



I. Exchange Rate Policy in Singapore

Since 1981, monetary policy in Singapore has been centered on the **Exchange Rate**

Objective of promoting price stability for sustained economic growth

Why the Exchange Rate?

1. Small Economy

2. Openness to Trade

- Trade about 3x the size of GDP

3. Openness to Capital Flows

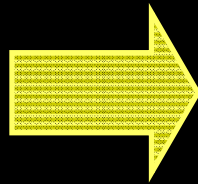
- No controls on capital inflows and outflows of foreign currency funds

- Liberal policy towards FDI



Characteristics of the Exchange Rate System

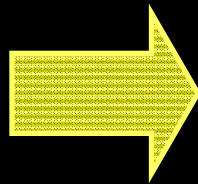
BASKET



Exchange rate is managed against a trade-weighted basket of currencies of our major trading partners and competitors.

[Mitigates volatility of foreign exchange markets]

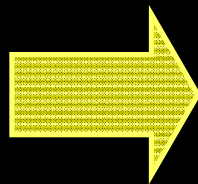
BAND



Trade-weighted S\$ is allowed to float within a band.

[Absorbs short-term market volatility, and provides flexibility in the management of the exchange rate]

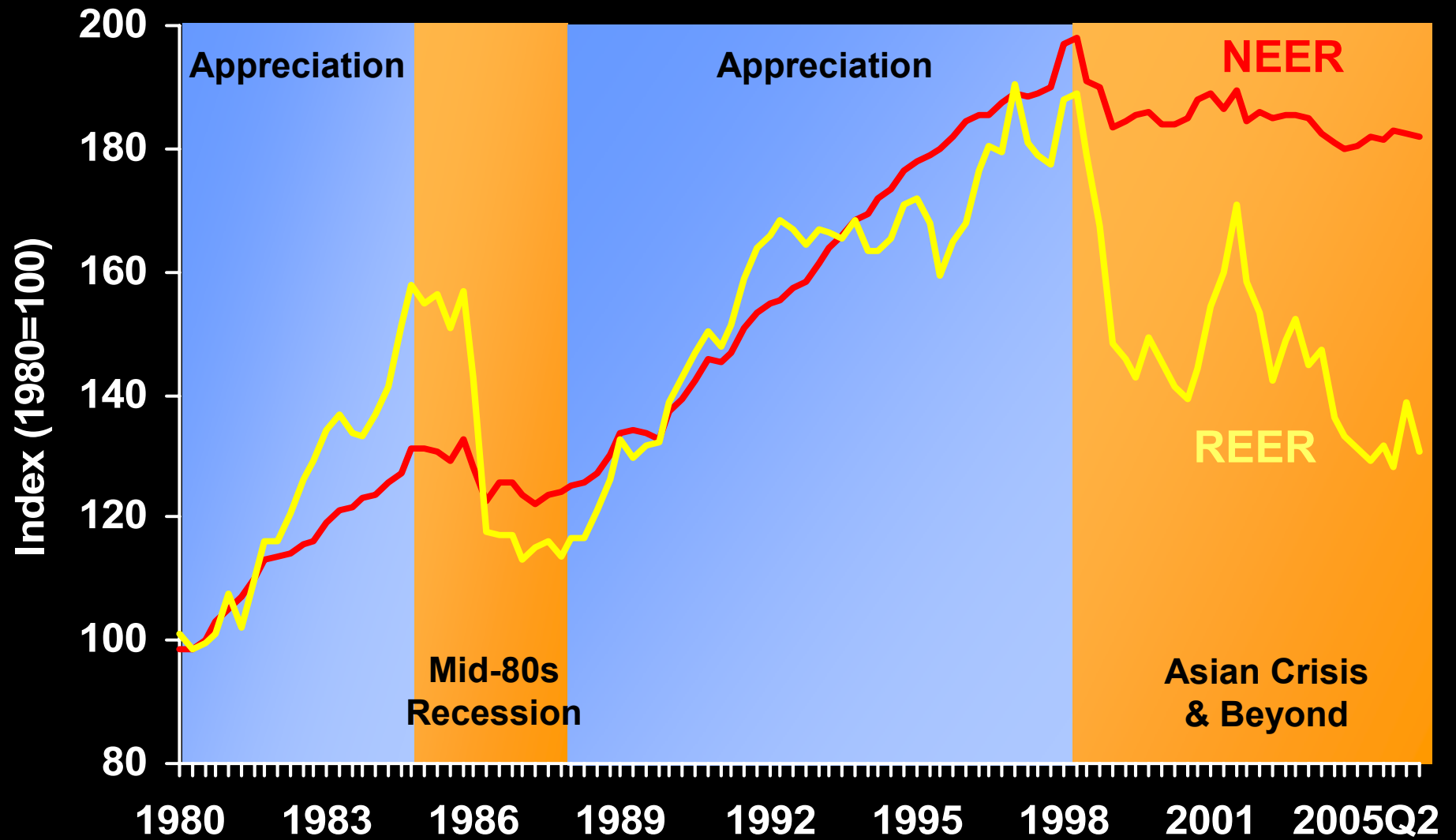
CRAWL



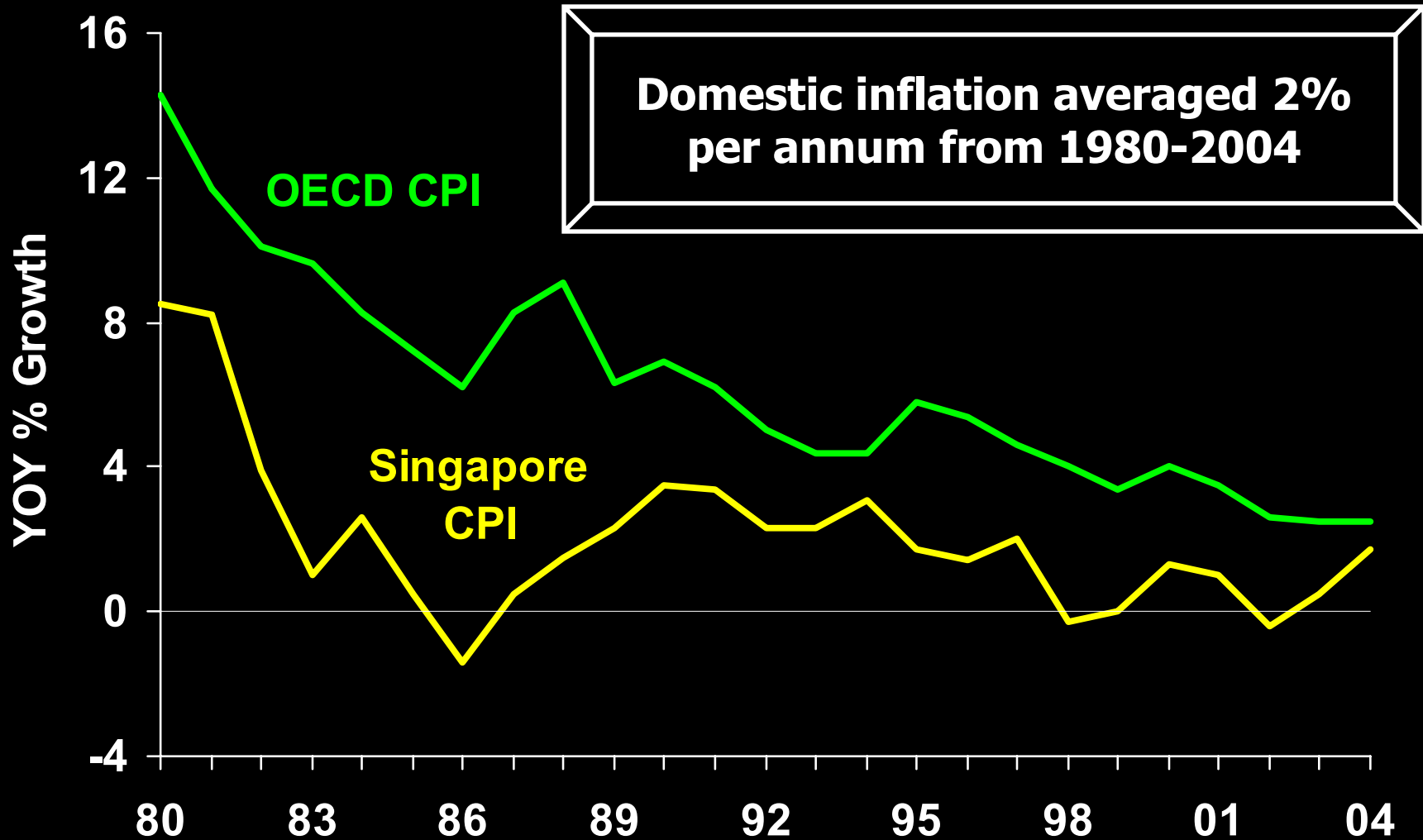
The band itself is adjusted and is allowed to “crawl” reflecting underlying fundamentals.

[Prevents misalignment in the currency]

S\$ Exchange Rate Movement



Domestic Inflation Remained Benign



II. Transparency Initiatives and Their Impact

Transparency of Monetary Policy

Communication/Accountability

- **Monetary Policy Statement & *Macroeconomic Review***
- **Briefings to media & private sector analysts**

Economics Education

- **Monographs on *Singapore's Exchange Rate Policy* and *Monetary Policy Operations in Singapore***
- **Economics Explorer pamphlets & Staff Papers**
- **Lectures to teachers & students**

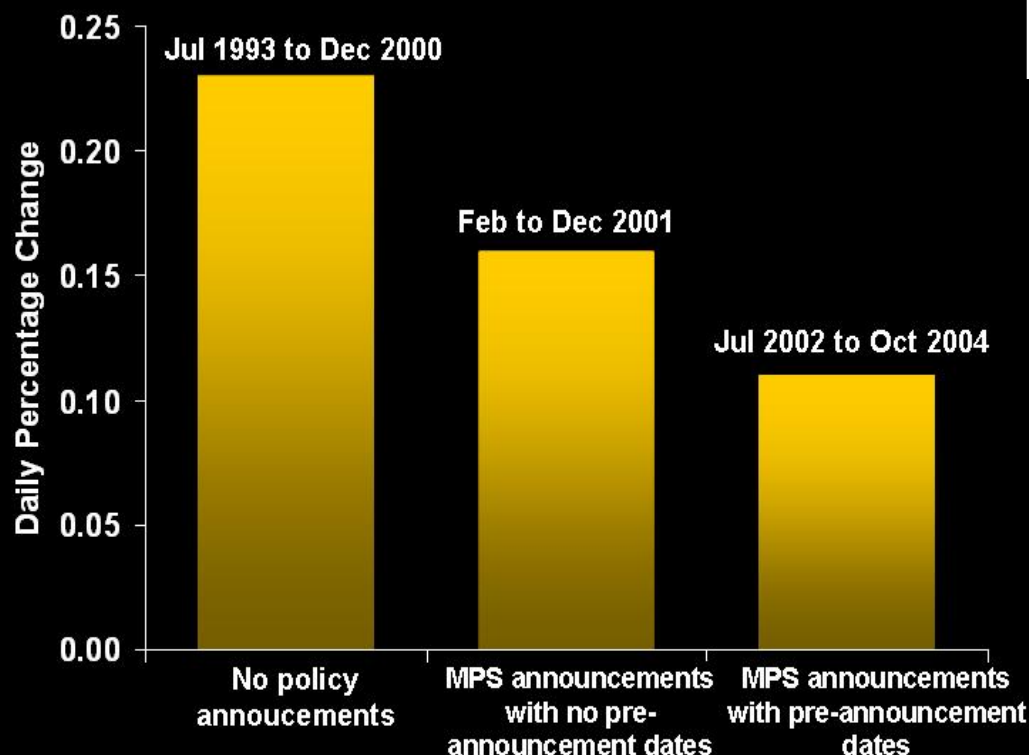
Timeline of Key Transparency Initiatives

| | |
|--------|--|
| Apr 99 | First Issue of <i>Quarterly Bulletin</i> |
| Sep 99 | Launch of <i>Economics Explorer Series</i> |
| Feb 00 | <i>Monetary Model of Singapore Conference</i> |
| Jul 00 | Announced for the first time the <i>monetary policy stance</i> |
| Feb 01 | First release of <i>Monetary Policy Statement</i> , together with closed-door private sector analyst briefing |
| Feb 01 | Release of <i>monograph on Singapore's Exchange Rate Policy</i> , which disclosed for the first time a historical time series chart on the S\$REER and NEER |
| Jul 01 | Second Monetary Policy Statement; which disclosed for the first time a <i>graph on the S\$NEER movements over the preceding six months</i> . This graph has been released in subsequent Statements |
| Jan 02 | First issue of the semi-annual <i>Macroeconomic Review</i> , which provides a detailed assessment of recent economic developments and outlook that underlies the monetary policy stance |
| Jul 02 | First <i>media briefing</i> in conjunction with the second issue of <i>MR</i> |
| Jan 03 | Publication of <i>monograph on Monetary Policy Operations</i> , highlighting key aspects of MAS' FX operations and MMOs and the underlying factors and considerations |

Assessing Market Response to MAS' Monetary Policy Statements

Market movements around policy dates have declined over time, coinciding with increased policy transparency

Average Absolute Change in S\$NEER during Policy Announcements



Daily Market Response to MAS' Monetary Policy Moves (in per cent)

{Daily Changes in S\$NEER = f(Change in the slope of the S\$NEER policy path)}

| 1 Jan 1994 - 21 Feb 2001 | 22 Feb 2001 - 28 Feb 2005 |
|--------------------------|---------------------------|
| 0.32*** (0.02) | 0.06* (0.03) |

Nos. in parentheses are standard errors.

***, ** and * represent significance at the 1, 5 and 10 per cent level.

Assessing Market Response to MAS' Monetary Policy Statements

Extent of anticipation and pass-through of monetary policy moves have changed over time

- Market participants better able to understand and anticipate monetary policy following MAS' increased transparency.
 - MPS announcements and policy intent were largely factored in prior to the actual announcement day by around one to two weeks.
 - Past data on exchange rate policy moves does give a better indication of future policy moves in the post-MPS period.
 - In the pre-MPS period, it took longer for policy movements to be factored-in by the markets.