

Singapore Raises Inflation Forecast to 27-Year High

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July 24 (Bloomberg) -- Singapore's central bank raised its 2008 inflation forecast for a third time this year, saying it needs to remain vigilant against price gains even as economic growth is set to ease in the coming quarters.

Consumer prices may rise 6 percent to 7 percent this year, the biggest gain since 1981, Monetary Authority of Singapore Managing Director Heng Swee Keat said today. The central bank, which uses its currency to combat price gains, needs to ensure that inflation expectations are "anchored," he said.

Many central banks in the region are "behind the curve" on monetary policy, the Asian Development Bank said this week. Singapore's current foreign exchange stance is "appropriate" and inflation will ease in the second half, Heng said, signaling the authority may not allow faster appreciation at its next policy announcement in October.

"In a pre-emptive move, MAS undertook a tightening of monetary policy in October 2007 and April 2008 even as there were heightened concerns over developments in the U.S. economy," Heng told reporters in Singapore. "The effects of our policy tightening will continue to restrain cost and price pressures going forward."

Surging oil and food costs have forced central banks from Vietnam to Pakistan to raise borrowing costs, even as a U.S. slowdown hurts demand for Asian goods and erodes growth. The Philippine central bank has raised interest rates at its last two meetings, while Bank Indonesia has boosted borrowing costs for three consecutive months.

Inflation 'Bugbear'

Singapore's consumer prices are climbing at the fastest pace in 26 years, and averaged 7.1 percent in the first half. That's more than three times the 2.1 percent average last year. The central bank said inflation may have already peaked after reaching 7.5 percent for three consecutive months, though oil and food prices are expected to remain elevated.

"The bugbear is inflation," Goh Chok Tong, chairman of the central bank, said in its annual report released today. "The ongoing volatility in global financial markets and the threat of higher inflation mean we have to remain vigilant."

Signs of slower growth are becoming evident and there are "considerable downside risks" for Singapore's exports, the central bank said. The strength of the Singapore dollar, which has gained 5.6 percent this year, may have hurt overseas shipments "to some degree," Heng said. The currency was little changed at 1.3618 against the U.S. dollar at 3:11 p.m. today.

'Downside Risks'

“It's easiest for them to maintain the current policy,” said Song Seng-Wun, an economist at CIMB-GK Securities Pte. in Singapore. “There is no compelling reason for them to ease because the economy is not in need of that kind of stimulus, while a tighter policy is not advisable when there are downside risks to growth.”

The island's trade promotion agency in May lowered its forecast for export growth this year to a range of 2 percent to 4 percent, from an earlier estimate of 4 percent to 6 percent. Shipments grew 2.3 percent last year.

Slowing growth and easing demand for labor may lessen inflationary pressures, Heng said.

Singapore's gross domestic product increased 1.9 percent last quarter from a year earlier, after expanding a revised 6.9 percent in the first three months of 2008. The central bank expects growth to range from 4 percent to 6 percent this year, after an expansion of 7.7 percent in 2007.

“Recent employment surveys have shown that employers have become more cautious about hiring, suggesting that the pressures on the labor market could ease,” Heng said.

Singapore's financial services industries and electronics-related businesses are among those that will be at risk from a “protracted U.S. downturn,” the authority said. Still, increased trade within Asia will cushion slowing U.S. demand, it predicts.

Source: Shamin Adam



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