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Rather, any effect will be through the returns on assets, he says at a lecture at SMU

[SINGAPORE] Europe's return to conventional monetary policy will not affect Singapore directly through interest rates, but indirectly through the Republic's investments overseas, said Professor Robert Holzmann, the governor of Austria's central bank, on Monday (Jun 16).

"The effects will be more through the asset channel, not through our interest rate policy," he told The Business Times after delivering a lecture at the Singapore Management University's School of Economics.

Between 2009 and 2021, central banks in advanced economies used unconventional monetary policy – such as negative interest rates and asset-purchasing programmes – to avoid deflation and get inflation back up towards long-term targets, he noted.

But this had adverse outcomes such as hurting banks' profits, and unwelcome implications, including the creation of zombie firms kept alive by easy money.

Since 2022, to combat rising inflation, many central banks have shifted back to the conventional monetary policy of raising interest rates, he said.

This often forces other countries to raise their own interest rates, which could constrain growth.

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But for Singapore – which uses exchange rates rather than interest rates as a policy tool – Europe's interest rate policy may not have "any large or measurable effects" by itself, he told BT.

Rather, the effect will be through assets. Higher interest rates in Europe mean that European assets offer higher returns. As a result, investors, including in Singapore – might reallocate some money from other markets into European assets, in the name of diversification and risk management.

"I think the diversification possibilities for Singapore would increase, and as a result of it, Singapore would profit," said Prof Holzmann.

"Because if you have only one asset in the world you want to buy, you're always subject to a monopoly. If you have two or three assets, perhaps other assets coming to the table, you can profit because you have better risk management."

As interest rates rise, Singapore benefits as it has high reserves, he said. And investments by Singapore's retirement fund, for instance, would also gain value: "You will get higher than before."

Cooperation on digital currency

Separately, Prof Holzmann noted that the governors of the central banks of Singapore, Austria and other states meet every two months at the Bank for International Settlements to discuss topics of shared interest.

Digital money, for instance, "is definitely something which will interest Singapore in the future, and vice versa", he said.

"I think we're at the beginning of a revolution. We don't know yet how to proceed." Checking on new products and ideas is thus useful, he added, citing experimentation efforts with digital transfers in Hong Kong and Thailand.