

Singapore's Menon Says Era of Cheap Money, Energy Is Over

- Global interest rates unlikely to return to near zero: MAS MD
- Country can no longer rely on cheap labor, Menon says

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Bloomberg, 23 August 2022

Singapore's central bank chief said that global interest rates are unlikely to return to near zero, joining a chorus of policymakers signaling that inflation is likely to remain high while monetary policy tightening will continue.

"The era of cheap money, cheap labor and cheap energy is over," said Ravi Menon, managing director of the Monetary Authority of Singapore, in a speech at the Institute of Policy Studies on Tuesday. "Interest rates are not going back to the zero lower bound that we have seen in the last two decades."

Surging inflation has prompted aggressive increases in rates by central banks including the Federal Reserve and Bank of England. The MAS has tightened monetary policy three times in the last year, including two off-cycle moves. Core inflation hit a near 14-year high last month in the city-state and the financial hub is also experiencing its worst labor shortage in over two decades.

Menon said that costs of borrowing will be higher and "more reflective of time horizons and risk premiums." A shrinking labor force, the extension of progressive wages to more sectors of the economy and an increase in the minimum salary to relocate foreigners to the island meant that Singapore can no longer rely on cheap labor, he added.

Prime Minister Lee Hsien Loong earlier this month said the island nation is prepared to boost support measures to help deal with the increased cost of living. Rising costs have always been a hot-button issue for the wealthy city-state that Lee's political party has dominated since independence in 1965.

Menon said the economy needs to adjust to these new cost structures as money, labor and energy are repricing to reflect their relative scarcities. "The most effective way is through pervasive innovation and skills upgrading as the basis for higher productivity and wages across the board," he said.