Concerns over asset price bubbles in Singapore
By Linette Lim | Posted: 07 May 2012 2153 hrs

SINGAPORE: The seeds of the next financial crisis could be sown even before the current one is completely over.

That's the warning from some experts at a conference on asset price bubbles in Singapore at the Singapore Management University.

However, they noted that crisis could be averted, if central banks did a better job of communicating their policy stance to the market.

Property price bubbles are in part driven by uncertainty about savings.

And this happens easily in a global environment of low interest rates, with investors seeking out higher-yielding assets.

However, China has managed to rein in property prices, with clear signals from authorities.

David Fernandez, managing director and head, Emerging Asia Research, JP Morgan, said: "The numbers come out, it's down, and we all look around and say, 'is it down enough? Are they going to stop this yet?' And then you have another speech that this is still a policy priority... So in this case, it's having a bubble come down with a direction stated by the policymaker."

But not all policy messages are well received by the market, as in the UK recently.

James Mirrlees, Emeritus Prof of Political Economy, University of Cambridge, 1996 Nobel Laureate in Economics, said: "The Chancellor of the UK was saying 'Please banks, lend more'. And I think that clearly counts as a not very effective macro-prudential policy, although it is very clear and might well be regarded as very predictable."

Macro-prudential policies also include lowering the loan to value ratio of housing loans - to prevent risky borrowing by individuals.

These measures - along with punitive taxes for housing transactions - have been adopted by administrations in Hong Kong and Singapore to stem sharp property price increases.

Some experts said this is a problem that comes with success.

David Mayes, BNZ Professor of Finance, University of Auckland, said: "Singapore is an extremely successful economy - you've got to live with it. This is going to be reflected in that your wealth is going to go up compared to other people."
"Some of this is going to happen in prices. If you're not allowing it to happen through the exchange rate, it's going to happen through domestic prices."

As economies prosper, experts said it is only natural that people look to spend money to improve their standard of living.

But other policy tools - such as transfers to the poor - are needed, to even out the distribution of wealth.

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