NUS National University of Singapore
Source: *The Straits Times,* pC3
Date: 27 May 2017

Top economist warns of 'explosion in leverage'

Citi's global chief economist says that since last financial crisis, steps have not been taken to 'prevent next crisis'

Yasmine Yahya
Assistant Business Editor

One of the world's top economists has warned that a decade after the last financial crisis, the level of debt being taken on by corporations and households in the United States is hitting levels that should concern regulators.

Citi's global chief economist, Dr Willem Buiter, speaking at the Asian Monetary Policy Forum (AMPF) in Singapore yesterday, warned of an "explosion in leverage".

"No lessons have been learnt, effectively, since the last financial crisis. Yes, the FSB (Financial Stability Board), the Basel group and national regulators have taken measures to prevent the last crisis. They have not taken measures to prevent the next crisis."

Leverage is popping up in new places and is therefore not subject to the kind of macroprudential safeguards imposed since the 2008 financial crisis, he said.

"Look at the US. No cross-sectoral learning has taken place," he said.

"Yes, leverage is more or less under control in the banking sector because it was hit hard by regulations... but we see corporate debt, especially at the junk end in dangerous territory, with risk wholly underpriced."

Commercial real estate lending has also exploded in a way that is not compatible with the likely future path of occupancy rates, he said.

"Even households, while not leveraging up through mortgages again – that's still under control, because that was the last problem – are now leveraging up through credit cards, subprime car loans, student loans and the rapid expansion of credit through shadow banks, which are not on anybody's radar."

Dr Buiter said stock markets, especially on Wall Street, are too exuberant and ignoring the risks the world economy faces.

Aside from the explosion in leverage, other risks include the rising trend of deglobalisation in the US and Europe, potential trade skirmishes between China and the US, and geopolitical tensions with North Korea, he said.

"We have a cognitive disconnect between what markets price and what's likely to happen."

The AMPF, held at the Shangri-La Hotel, is co-organised by the University of Chicago Booth School of Business, the National University of Singapore Business School and the Monetary Authority of Singapore.

It brings together prominent academics, financial practitioners and policymakers to discuss monetary policy issues.

yasminey@sph.com.sg