

Asset Price Bubbles are not yet a Concern for Thailand

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SINCE 2004, the Bank of Thailand has been monitoring signs of financial imbalances in seven key areas encompassing the property market, stock market, banking sector, non-financial corporate sector, household sector, government sector and external sector. The goal of this surveillance is to gain an early warning system for potential disruptions to financial stability, especially if the underlying imbalances are related to monetary policy actions.

Of the seven financial imbalances, property and stock price developments have been brought under closer scrutiny recently, in light of concerns over asset price bubbles that have surfaced in several other Asian countries.

That said, the latest data reveal that there is not yet a sign of a destabilising asset price bubble in the Thai economy.

On property prices, the Government Housing Bank's quality-adjusted property (land, single-family home and townhouse) price indices in the third quarter were all down compared to the same quarter of last year. This stood in sharp contrast to increases in property prices observed in several Asian economies.

The much cited increases in the average price of newly launched condominium projects in the second half of this year can be traced to the launches of several high-end condominium projects notably those with advertised prices ranging above Bt30 million per unit.

If one looks at only high-end condominium units with comparable locations and sizes, the price increases have been marginal.

Indeed, according to real estate agency CB Richard Ellis, it will likely take another year for the luxury condominium segment to fully recover from last year's crisis.

In a bank-based economy like Thailand's, a property market bubble typically cannot emerge without fuelling credit growth.

Thus far, mortgage loan growth is robust only when viewed relative to other types of loans.

To put some figures in perspective, Kasikorn Research Centre has forecast industry-wide mortgage loan growth at the end of this year at 7.4 per cent. This is significantly below the pre-crisis (2002-2007) average of 14.1 per cent, which in turn is way below the level seen in the 1990s. The same thing can be said of loans to developers, which in October saw a contraction from last year.

Finally on stock prices, while expectations of economic recovery and excess global liquidity have buoyed the SET Index significantly from the beginning of the year, the SET's performance is in the lower middle of the pack with respect to regional stock price movements.

Furthermore, valuation metrics such as the forward price-to-earnings ratio and the price-to-book value ratio show that the SET Index is not out of line with either its historical norm or the regional markets.

All of these do not mean that the central bank is complacent. On the contrary, we are fully aware that in a low interest rate environment, once the economy's recovery becomes firmly established, the tide can quickly turn against us. This explains why the central bank has recently stepped up its surveillance efforts while standing to act pre-emptively should the situation warrant.

(The views expressed are the author's own.)

Published in The Nation on Monday, December 14, 2009