We have not learned lessons from last financial crisis: Economist

YASMIN YAHYA, THE STRAITS TIMES

One of the world’s top economists has warned that a decade after the last financial crisis, the level of debt taken on by corporations and households in the US is hitting worrying levels.

Citi’s global chief economist, Dr Willem Buiter, speaking at the Asian Monetary Policy Forum (AMPF) at the Shangri-La Hotel 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 are not subject to the kind of safeguards imposed since the 2008 financial crisis.

“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 under-priced.”

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

“Even households, while not leveraging up through mortgag-