Identifying and Measuring Asset Price Bubbles in the Philippines
by Eloisa T. Gliandro and Vic K. Delloro\(^1\)

Abstract

We examine in this paper evidence of asset price bubbles in three asset markets, namely foreign exchange market, stock market and housing market. The analysis is done by decomposing asset prices into fundamentals, cyclical and bubble components using the Kalman filter.

The decomposition analysis reveals bubble episodes that generally parallel the major macroeconomic boom and bust cycles. This is particularly true for the exchange rate and stock markets. However, no bubble episode is detected in the housing markets.

The finding of no excessive bubble episodes in recent years is in accord with the current state of development in the asset markets. Capital markets are relatively underdeveloped and only a small portion of the population invests in the stock market while foreign investors’ interest has steadily declined. There has also been greater exchange rate flexibility amidst greater foreign exchange flows since the Asian crisis. Reforms in the foreign exchange regulatory framework are more recent and coincided with benign economic conditions and a conservative banking system. Credit conditions remain subdued as there has been a general inclination towards greater cash holdings and debt payments during the recovery phase. As for the housing market, the institutional set-up in the housing finance market, statutory limits on mortgage loans, rent control and lack of effective demand temper excessive risk-taking.

Key words: asset price bubbles, overvaluation, cycles, Kalman filter

\(^1\) BSP Working Paper BSP Working Paper Series No. 2010-002. Views expressed herein do not represent the views of the Bangko Sentral ng Pilipinas. Errors and omissions are sole responsibilities of the authors.