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## Bank Loans and Real Estate in East Asia: The Influences of Real Estate Prices on Lending Behavior of Domestic Banks<sup>\*</sup>

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### Abstract

This paper examines if and how fluctuations in real estate prices affected bank lending before and after the crisis in Malaysia, Singapore and Thailand. Since the crisis of 1997, previous literature claimed that the rise and fall in real estate prices affected bank lending and the macroeconomy through its role as collateral in the East Asian countries. This study implements a dynamic model of bank lending and employs a test utilizing panel data of domestic bank balance sheets in order to estimate the influence of real estate prices on new bank lending in Malaysia, Singapore and Thailand. In addition, the paper examines the actual conditions surrounding the role of real estate as collateral in these countries' bank loans. The results of the regression suggest that fluctuations in real estate prices can impact domestic bank lending. The regressions show that domestic bank lending behavior varied after the crisis, interest rates became important for loans of domestic banks after the crisis in Singapore and Thailand, and the rise in real estate prices increased bank lending of domestic banks before the crisis in Malaysia and after the crisis in Singapore. These results may imply that reforms of the banking system after the crisis in these countries could have influenced domestic banking behavior and government regulation of bank loans with regard to real estate had an effect.

*Keywords:* Real estate price, Bank lending, Domestic banks in Asia.

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