

# **Dynamic Relationship between Bank Loan and Stock Price:**

## **The Case of Thailand**

### **ABSTRACT**

This paper reveals the dynamic relationship between bank loan and stock price in the case of Thailand including four other control economic variables. We employ a Vector Autoregressive model and its implications, impulse response function and forecast error variance decomposition to capture their relationship and forecasting ability of each other.

By dividing data into two groups to eliminate the impact of the Asian crisis and to compare the results between pre and post crisis, we find a significant positive response in terms of a change in bank loans to a stock market return shock, as expected, only after the crisis. Meanwhile, the response of stock market return to innovation of bank loan growth seems to be lesser especially after the crisis. In addition, we also find that stimulating economy by increasing bank loans will boost the level of output only in short run.