Real Estate Investment and Vulnerability to Financial Crisis in Thailand: A Financial Computable General Equilibrium Approach

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Abstract

Growth in the economy of Thailand is highly related with the role of the real estate industry. While the framework of Social Accounting Matrix (SAM) and Computable General Equilibrium (CGE) show the interaction between real estate and other sectors in the real economy, the flow of funds accounts and Financial SAM extend the more realistic picture of the connection between real estate and the financial market. A Financial CGE model is used to investigate the role of real estate investment in the economy of Thailand. This study discusses how the over-invested real estate market can cause the country to be vulnerable to a financial crisis. In addition, the relationship of real estate asset and property markets is incorporated into the model to captures interconnections between production sectors and financial sectors. The macroeconomic and socioeconomic indicators from the model simulation show that moderate investment in real estate sectors can lead to steady economic growth with small impact on income disparity. In addition, various policy implications can be applied to mitigate the negative effects from the real estate investment in Thailand. The analysis suggests that moderate growth in the real estate sector is desirable.

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