How collateral laws shape lending and sectoral activity

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ABSTRACT

We demonstrate the central importance of creditors’ ability to use movable assets as collateral (as distinct from immovable real estate) when borrowing from banks. Using a unique cross-country micro-level loan data set containing loan-to-value ratios for different assets, we find that loan-to-values of loans collateralized with movable assets are lower in countries with weak collateral laws, relative to immovable assets, and that lending is biased toward the use of immovable assets. Using sector-level data, we find that weak movable collateral laws create distortions in the allocation of resources that favor immovable-based production and investment. An analysis of Slovakia’s collateral law reform confirms our findings.

JEL classification: G21, G30

Keywords: Movable collateral, Immovable collateral, Collateral laws, Creditor rights, Loan-to-value ratios

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