
Credit Crunch in the Environment of the Global Crisis: The Case of Turkey

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ABSTRACT

The main purpose of this study is to investigate whether the decrease in real sector loans of the Turkish banking sector caused by the global crisis is primarily a supply-side or demand-side case. In addition, this study attempts to elucidate the variables affecting the real sector loan supply of banks and the loan demand of real sector enterprises in Turkey. Monthly data from January 2005 to December 2009 are used as the period and the ordinary least squares and the cointegration analysis are employed as the methods for the application. The results indicate that the real sector loan supply of banks is positively related to real lending capacities of banks, to real industrial production, and to nominal interest rates on loans and is negatively related to the stock market index in Turkey. Additionally, the loan demand of real sector enterprises is positively related to real industrial production and is negatively related to industrial production gap and to nominal interest rates on loans. Moreover, this study concludes that the decrease in real sector loans of the Turkish banking sector is both supply-side and demand-side. The contraction of economic activity arising from the global crisis and worsened expectations reduced both the loan supply and the loan demand in Turkey. If “credit crunch” is defined as a situation in which loan supply is lower than loan demand during a time of decreasing loans, it can be said that the decrease in real sector loans in the country indicates a credit crunch for some months of the observed period.

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1. INTRODUCTION

Fundamental functions of banks are making economic actors close. This operation materializes through borrowing and lending. Banks collect funds from savers and lend to enterprises and to consumers. Therefore, banks mediate between economic actors supplying and demanding funds. If banks lend to enterprises and to consumers at convenient conditions, investment and consumption demand will increase and this state will contribute to expansion of economic activity. The case that banks leave their fundamental duties or banks can't be active efficiently, investment and consumption expenditures will be restricted and economic growth will be affected negatively.

In stagnation or crisis periods, adverse selection and moral hazard problems increase for banks. These problems raise risk perceptions, non-performing loans, negative expectations about repayments of banks and slow down lending activities. While the term credit crunch suggested in this context indicates a decrease in loan supply, most of the studies in literature on credit crunch emphasize that it is difficult to separate supply-side factors and