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# Analiyzing Main Determinants of Currency, Debt and Banking Crises and Fragilities in Turkey

**Murat TÜRKER**
Banking Regulation and Supervision Agency
Ankara-Turkey
mturker@bddk.org.tr

## Extensive Summary

The basic lessons obtained from financial turbulences all over the world are the need to spot main causes, identify the triggering risk factors and consequently develop resolution plans for the potential financial crises, which include the establishment of a safe and sound financial system with strengthened institutional and structural agencies. Accurately and timely detection of the main causes that trigger financial crises emerging from currency, debt and banking is supposed to guide regulators to find "to the point" solutions to the fragility problems and isolate their effects. Since in the Turkey case, financial crises were observed to occur in the form of twin crises or triplet crises, in this paper, we put forward Turkey-specific diagnoses and suggestions.

Turkish financial sector is an appropriate laboratory due to its crises history in the near few decades. Contrary to recent numerous works on financial failure, this paper aims to analyze macro failures of Turkish financial sector.

In this work, we employed 32 independent variables to analyze 3 dependent variables each of which explains three types of crises, namely currency, debt and banking crises.

Some variables such as (i) Short-Term Debt/Net Reserves ratio, (ii) Current Deficit/GDP ratio, (iii) RoE, (iv) Liquid Assets/Total Assets ratio, (v) Dud Cheque and (vi) Protested Bills directly indicate the signals of an approaching financial crisis, while others do the same associated with others.

The empirical evidences and regression outputs tell us that the FX Volatility that causes Currency Crisis emanates from low GDP or growth, capital inadequacy, overwhelming preference of portfolio investments instead of funding real economy, and manipulative credit ratings. We can infer that, as banks start to operate with a melting equity level, loss their intermediary function and head towards risk-free instruments, they inevitably confront currency volatilities. It can also be clearly detected that credit ratings and central bank rezerves may play a vicious circle role at a currency crisis.

The Interest Rate Volatility that indicates the Debt and Liquidity Crisis is triggered by short position-hot money policy, inflation rate and low profits. It is clear that short position-hot money policy adopted during the analyzed period in this work, escalated FX risk and inhibit interest rate risk. An elevating RoA plays a tranquilliser role on interest rate volatility while inflation rate accelerates it.

The number of failed or consolidated banks depends on short position-hot money policy as well. Downward trend in credit amount and money outflows are also igniting factors of this type of crisis. Beside banks' abandoning their primary duty, the realized high FX risk due to short positions of banks and accompanying capital outflows placed the country with huge losses in the sector.

In conclusion, it is more than a need to focus on the areas that launch financial crises, by detecting the main determinants of sensitivity and fragility, so as to build a sound and robust financial system. Moreover, policymakers are supposed to regard this as a national security issue and revise current course of the financial system by planning new mechanisms and new institutional bodies.