

Finance, Instability, Debt and Growth: The Turkish Case, 1980-2010

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Abstract/Öz

Empirical results on the link between financial development and economic growth is mixed in Turkey. However, existing studies did not take into account the fact that Turkey has experienced endemic political and economic instabilities over extended periods. As a consequence of such instabilities, Turkish economy has shown frequent growth accelerations and collapses. Moreover, Turkish banking sector preferred to finance public borrowing rather than lending to the private sector due to the prevalence of high real interest rates on government bonds particularly during the 1990s. This study, therefore, aims to analyze the role of overall macroeconomic instability and public borrowing on finance-growth nexus in Turkey by using time series econometric techniques over the 1980-2010 period. After taking into account the effects of overall instability and public borrowing, we found a significant finance-growth link.

JEL Codes: E10, E44, E20, O40

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