A BRIEF LOOK TO IMPACT OF ELECTIONS ON TURKISH ECONOMY

Ahmet Hakan ÖZKAN[1]

ABSTRACT

The money supply had been expanding before 2011 elections of Turkey with the impact of rising credit demand of the corporations and the households. This increase on money supply might somehow be artificial and not trustworthy due to the decreasing money demand. This was the main reason for the fall of the value of Turkish Lira. Even though the money supply had increasing the money demand was not increasing with the same speed due to the uncertain environment.

The purpose of this study is to correlate the increase of the money supply and inadequate money demand with the diminishing value of Turkish lira. Data collection method is used. The value of the money is determined by the demand as much as supply. The unmet demands are accepted as inadequacy of supply and the rise of money supply which is created by the banks have been accepted as stable strategy for decades. But the mortgage crisis has shown that it is far from being stable. Therefore the idea of increasing the supply with the help of credits, before the rise of the demand should not be preferred to keep the currency stable

The corporations can be encouraged to grow with their own capitals and to work with the other countries. Aiming foreign countries as a market will provide real money supply instead of the artificial one.

Keywords: Money Supply, Money Demand, Credit Demand, Stable Strategy.

SEÇİMİN TÜRKİYE EKONOMİSİ ÜZERİNDEKİ ETKİLERİNE KISA BİR BAKIŞ

ÖZET

2011 seçimlerinden önceki para arzı, hane halklarının ve şirketlerin artan kredi talebi ile genişlemekteydi. Bu para arzı artışı, azalan para talebi nedeniyle yapay ve güvenilmez olabilmektedir. Türk lirasının değer kaybetmesinin ana nedeni buydu. Para arzı artmasına rağmen para talebi, çevrenin belirsizliliği nedeniyle aynı hızla artmamaktaydı.

Bu çalışmanın amacı, artan para arzı ve yetersiz para talebi ile azalan Türk lirası değerini ilişkilendirmektir. Çalışmada veri toplama yöntemi kullanıldı. Paranın değeri arz tarafından olduğu kadar, talep tarafından da belirlenir. Yıllarca karşılanamayan talepler yetersizlik olarak görüldü ve bankaların yaratmış olduğu para arzı istikrarlı bir strateji olarak kabul edildi. Ama mortgage krizi bunun istikrarlı olmaktan uzak olduğunu gösterdi. O halde arzı talepten önce arttırmak, kurun istikrarını korumak açısından tercih edilmemelidir.

Şirketler, kendi sermayeleri ile büyümeye ve yabancı ülkeler ile çalışmaya teşvik edilmelidir. Yabancı ülkelerin pazar olarak hedef alınması yapay yerine, gerçek para arzı yaratacaktır.

*Anahtar Kelimeler***:** Para Arzı, Para Talebi, Kredi Talebi, İstikrarlı Strateji.

[1] Öğr. Gör. İstanbul Aydın Üniversitesi İktisadi ve İdari Bilimler Fakültesi, İngilizce İşletme Bölümü, ahmetozkan@aydin.edu.tr

INTRODUCTION

Commercial banks can be shown as the most important financial institutions taking place in an economy (Rose, 1993: 5). The commercial banks can be classified in two main groups: participation banks and the conventional banks. The activities of participation banks, which are used to operate on interest-free banking method, may vary. Participation banks are also defined as Islamic Banks in international literature (Chong and Liu, 2009) and Islamic banks are interpreted as financial institutions based on the principle of Profit and Loss Sharing (PLS) with the entrepreneurial partners (Nienhaus, 1983: 31). In a sense, they can be defined as alternative to traditional banks and they are able to reach the unreached customers (Van Schaik, 2001: 46). The term Islamic PLS refers to a relationship between the borrower, lender and intermediary built upon financial trust and partnership (Yudistira, 2003: 2). The participation banks are able to create their own customers which was not a part of the banking system (Shaikh and Jalbani, 2008). By the way with the grow of the participation banks in Turkey, new customers joined the banking system. The households who avoid using usual banks have taken their place as new customers. By the way the total credit demand of Turkey has increased and with the growing number of the people who prefer to work with participation banks, the number of the participation banks increased (Arslan and Ergeç, 2010: 2).

The increasing volume of the banking sector is a good indicator of the created money. On the other hand created money might be a bubble. The credit demand of the customers might be temporary. The election period of Turkey may be creating a bubble in the credit demand just like the election period of any other countries. The government expenditures are done by using credit and these credits created money. The money demand of government created money supply. But the money demand for trade was not as big as the money supply created.

I. CREDIT VOLUME OF TURKISH BANKS

In 2010, the credits of the banking sector has increased with the rate of %33,9. %32,1 of this increase was the consumer loans and the receivables of the credit cards. The fastest growth is seen among the government banks. The credit given by the government banks has increased with the rate of %42,3 (BDDK, 2011: 9).

The credit amount has increased %33,9. Only the credit of the participation banks has shrunk by %30,4. Other banks could make a high spread. On the other hand the assets of the participation banks increased by %28,9 with a rise of 9.712 million TL between december 2009 and december 2010. As a result of this increase, the share of the participation banks at the sector increased from %4 to %4,3 (BDDK, 2011: 9).

The credit amount of the participation banks had a rise of %11,3 at the first halph of 2011. The rise of the assets was %11,4 during this period. But the average of the sector

was %13,9. Thus the share of the participation banks at the sector stepped back to %4,2. Total assets of the banking sector was 1.146.098 million TL in june 2011 (BDDK, 2011: 12).

Table 1. Change of the Given Credits of the Banks

		Government Banks	Private Banks	Foreign Banks	Particip. Banks	Invest. Banks	TMSF Banks	Total
Dec. 2009	TM	79.987	125.313	52.189	52.189	9.080	1	288.208
	FM	14.271	44.489	6.993	1.346	3.103	0	70.203
	TOTAL	101.213	191.482	62.590	23.641	13.695	1	392.621
Dec. 2010	TM	113.729	166.085	65.426	28.694	9.881	1	383.815
	FM	19.722	58.554	8.763	1.385	3.986	0	92.411
	TOTAL	144.053	256.118	78.900	30.823	16.010	1	525.905
Total Change	TM	33.741	40.772	13.237	7.055	801	0	95.607
	FM	5.451	14.065	1.770	39	883	0	22.208
	TOTAL	42.840	64.636	16.310	7.183	2.315	0	133.285
	TM (%)	42,2	32,5	25,4	-32,6	8,8	-6	33,2
	FM (%)	38,2	31,6	25,3	2,9	28,5	0	31,6
	TOTAL (%)	42,3	33,8	26,1	-30,4	16,9	-6	33,9

*TM: Credits in Turkish money, FM: Credits in Foreign money

*The credit amount of Turkish money are shown as million TL

*Foreign money are shown as million USD

*The total credit amounts are also shown in million TL.

Source: BDDK, 2011.

It is obvious that the participation banks have shown a decline on the credits from 2009 to 2010. The credit bubble of the participation banks was temporary and did not keep on inflating in 2010. Somehow a new rise has appeared in 2011 with the election economy.

The credit distribution has expanded at the first halph of 2011. The speed of giving credits is also more than 2010. In 2011, all kind of banks has a rise at the credits. The election economy was one of the most important reasons during this period. The elections are made in june 2011.

Table 2. Change of the Given Credits of the Banks

		Goverment Banks	Private Banks	Foreign Banks	Participation Banks	Investment Banks	TMSF Banks	Total
Dec. 2010	TM	113.729	166.085	65.426	28.694	9.881	1	383.815
	FM	19.722	58.554	8.763	1.385	3.986	0	92.411
	TOTAL	144.053	256.118	78.900	30.823	16.010	1	525.905
Jun. 2011	TM	131.902	205.167	69.758	31.514	10.701	1	499.042
	FM	23.336	67.027	9.122	1.734	4.837	0	106.056
	TOTAL	169.606	313.462	84.496	34.315	18.517	1	620.398
Total Change	TM	18.173	39.084	4.388	2.820	820	0	65.286
	FM	3.614	8.470	359	349	851	0	13.643
	TOTAL	25.552	57.342	5.652	3.492	2.507	0	94.546
	TM (%)	16	23,5	7	9,8	8,3	2,1	17
	FM (%)	18,3	14,5	4,1	25,2	21,4	0	14,8
	TOTAL (%)	17,7	22,4	7,2	11,3	15,7	2,1	18

Source: BDDK, 2011.

Turkish credit market had been growing with mortgage credits. The power of the mortgage credits was obvious on the economy of USA. The mortgage market in USA creates a huge money supply. The primary mortgages are followed by the secondary mortgages and the credit risk is avoided. Secondary mortgages are also called short sales. In 1995, the market of primary mortgages had a capacity of 674 billion American dollars. At the same year, the secondary mortgage market had a cycle of 3.992,8 billion American dollars (Cummings ve Dipasquale, 1997). Pension fund companies, which are one of the most significant investors of USA, were the main actors of secondary mortgage markets (Dolun, 2007). The pension fund companies are fed by the secondary mortgage markets and vice versa.

Mortgage loans were easy to borrow before the crisis. The credit card statement was enough for evaluation. The consuming ability of the customers were surveyed (Min,

2011). The other resources were ignored. The mortgage loans caused a significant rise at the money supply. After the crisis even 700 billion dollars, which was injected to the markets by the government in 2008, was not enough (Nelson, 2010). The risk of the unpaid loans are not limited with the credit risk. The expectation risk is also a new kind of risk which appeared after this crisis (Ozkan, 2012). The price of the real estates was expected to reduce. This expectation decreased the transaction volume of the secondary mortgage markets.

The similar sides of USA with Turkey should be elaborated. Expectation risk is also a serious risk in Turkey. The expectations of the households sometimes cannot be predicted. On the other hand the pension fund companies are not strong enough and does not seem to be growing with the same speed, the growing speed of the mortgage credits.

At the first half of 2012, the volume of the credits have reached 54,3 billion TL and increased %8 (BDDK,2012). Volume of mortgage credits has increased by %40 at the end of 2010, at the first half of 2011 it was between %35 and 40, after the second half of 2011 till the second quarter of 2012 it kept on increasing with a reducing rate and on june 2012 the increasing rate of mortgage credits was %18,1 (BDDK, 2012).

II. RATIOS OF TURKISH BANKS

The ratios are good indicators for the situation of the banks. The ratios of the Turkish banks show that the banking sector is growing with no danger signals. The capital adequacy ratio is still quite higher than the ratio accepted by any Basel declarations. The suspended receivables ratio has a decline. This indicator shows that the credit risk of the customers is falling. ROA has a decline, due to the increasing interest rate of the saving accounts. The interest rate of the loans did not change or changed with values which are below %1. But the average interest rate of the saving accounts moved to %9,25 from %6,5. As collecting deposit is profitable for the banks, they do not avoid paying higher interest rates to collect more. The rate of the saving accounts turning into credits explains the reason of the endeavour of the banks to collect more deposit.

Table 3. Some Ratios of the Banks

	dec 2009	marz 2010	jun 2010	sep 2010	dec 2010	jun 2011
Rate of the credits transferred into suspended receivables	5,3	4,9	4,4	4,3	3,6	2,9
Capital adequacy ratio	20,6	19,9	19,2	19,3	18,9	17,1
Rate of the saving accounts turning into credits	80,6	82,1	84,4	86,7	88,5	97
ROA (Return on Assets)	2,6	3,0	2,8	2,6	2,4	1,9
ROE (Return on Equity)	22,9	24,7	23,4	21,1	20,0	16,5

Source: BDDK, 2011.

The rate of the saving accounts turning into credits was at a satisfying level at the end of 2010. But the rate of %97 formed in june 2011 is an alarming level. This rate is a sign of the new foreign source demands. This is one of the most important indicator to explain the rising value of euro and American dollar. The banks has begun to take on debt in different currencies like euro or American dollar.

Higher interest rate of the deposits affected return on equity as well. This adverse affect seems like %2,9 in 2010. But the fall is sharper at the first halph of 2011. The return on equity is always preferable between %15 and %20. In fact, the ratio which is over the risk of free rate is optimum. If the average of all the optimum portfolios are elaborated, this rate will still be satisfying due to the falling markets all over the world. On the other hand, sharp declines are indicators of bubbles relatively.

If the rate of the saving accounts turning into credits is too high, then the banks would search new sources. Foreign sources with foreign currencies might be volatile. After the crisis of 1994, all the deposits are taken under guarantee by the government (Keskin et al., 2004: 72). The banks began to take more risks after this guarantee. In 2000 and 2001 the exchange rate based stabilization anchor was in use (Toprak, 2001: 13). The government was aiming to reduce the public debt by using anchor (Miller, 2006: 451).

The public debts were reducing due to the low interest rates. The Turkish banks started to borrow in foreign currencies from the foreign banks (BDDK, 2003: 3). Other resources in foreign currencies are also used. For example the Turkish banks bought treasury bonds of Deutsche Bank, which were at the value of 750 million American dollars, at the same day (Uygur, 2001: 17).

These kind of transactions increased the value of the foreign money and decreased the value of Turkish Lira. Most banks exceeded the limit announced by TBB. These exceedings were realised too late and the crisis arised. There were many other reasons of 2001 crisis, but the biggest reason was the borrowings of the Turkish banks in foreign currencies. Any bubbles can be realised lately, if the ratios of Turkish banks are not followed carefully. ROA of Turkish Banks reached %15,5 at the end of 2011 and %16,3 on june 2012 (BDDK, 2012).

III. FOREIGN TRADE BALANCE

In 2011, the total money demand of the world has been decreasing. The riots all over the world, the Tsunami disease and the fall of the credit note of USA were the main reasons of this decline. In order to these adverse impacts, the trade partners of Turkey have also lost some power. Somehow, the trade partners of Turkey mostly did not decrease their demands and the export of Turkey continued to rise.

The import to European countries increased %5,4 at the first halph of 2011. Import to other countries has also increased except Africa and Central America countries. The import to north African countries had a fall of %17,9 and the Central America countries

had a fall of %8,2 (TUIK, 2011).

The import of Turkey was 15.233 million American dollars in june 2010 and increased %41,7. It became 21.586 million American dollars in june 2011. The export of Turkey could increase only by %19,3 during this period of time. It was 9.543 million American dollars in june 2010 and it became 11.388 million American dollars in june 2011 (TUIK, 2011). Another important reason of the value loss of Turkish Lira is the sudden increase of import. The rate of export to import was %62,6 in june 2010 and it has fallen to %52,8 in june 2011. This rate shows the amount of the import covered by the export.

The foreign trade balance has a direct affect on money demand (Yamak ve Korkmaz, 2005: 17). The import and the export elasticities are important to calculate the money demand. To calculate the elasticities of foreign trade, we can use long run price elasticities (Bahmani-Oskoeee and Muhsin, 1998).

Import demand function:

$LogM_t = \alpha_0 + \alpha_1 \, Log \, (PM/PD)_t + \alpha_2 \, LogY_t + \varepsilon_t$

Export demand function:

$LogX_t = \beta_0 + \beta_1 \, Log \, (PX/PXW)_t + \beta_2 \, LogYW_t + \varepsilon'_t$

"At the import demand function, M is the amount of import, PM means the import prices, PD local prices, Y is the national income and ε is the error term. At the export demand function, X is export, PX is the export prices, PXW is the world prices, YW is the income of the world and ε' is the error term. The national income has a positive correlation with import and the income of the world has a positive correlation with the export. If the addition of the results gained by using these two functions is zero, then the critical elasticity appears. If the result is below zero, then there is critical loss" (Baumann ve Godek, 2006).

It is possible to show the affects of foreign trade balance by using the multiplier formula:

$\Delta Y = 1/MPS + MPM \, (\Delta I + \Delta X)$

Any increase at the export will increase the yield and any increase at the import will be reducing it. This is the most simple way to explain. The situation of the election period does not seem to be increasing the yield. In other words, foreign trade balance did not have an economic additional value on yield, during the election period.

CONCLUSION

The crisis samples show the importance of the stability of money supply. Borrowing may create Money, but money supply which is created by the credit given by the

commercial banks can be stable to a certain level. But after this level, it has more risks than before. Especially, lending by using resources in foreign currencies has bigger risks.

The mortgage loans seem to be increased during the election period. This increase has slowed down after the election. The demand to the mortgage loans seem to be flexible. The import rates also seem to be increased with the affect of election. On the other hand, with the affect of the sudden increase on the import rates, the currency of Turkish Lira has broken the neckline and started to lose value. The balance could be formed gaining a little value and the last situation seems to be fixed for a while.

The loan demand seems to be flexible. Any sudden changes at the demand may mean trouble. 1929 crisis is a good example of these results. These two demand concepts might seem different. But demand of consuming is also related with the credit demand. Therefore the demand which is mentioned here will be including money demand. Because any demand to the products of a country means the demand to the money of that country. This situation is able to affect currency. The demand of borrowing shows the existence of the ability of creating money. Therefore credit demand is more critical than consumer demand. It should be noted, consumer demand cannot create money by itself, but loan demand can.

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