ABSTRACT

THE IMPACT OF CHANGE IN DOMESTIC CREDIT VOLUME ON MACROECOMICS INDICATORS: THE CASE OF TURKEY

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Domestic credit provided to households and firms by the banking sector has a very important position in the monetary transmission mechanism and it plays a vital role in the revival of domestic credit demand and investment financing.

In this study, we analyzed the effects of domestic credit indicators on economic growth, inflation, current account deficit and unemployment by using quarterly data between 2000-2014. The stationarity of series were analyzed by using ADF test, PP test, and KPSS test, afterwards the series were found as I(1). The causality relationship between the series were analyzed by Granger test (1969) and only unidirectional causality relation was found from domestic credit to inflation, economic growth, and unemployment. But there was no causality between current account deficit and loans. The existence of co-integration relationship between series are researched by Engle-Granger (1987) and Johansen (1988) test. According to results, there is a cointegration between the series. Long-term analysis between the series were conducted by DOLS methods and we found that 1% increase in loan volume increases the current account deficit by 0.06%, economic growth by 0.75%, inflation by 0.32% and decreases unemployment rate by 5.4%. Short-term analysis was also conducted by DOLS methods and it is determined that error correction mechanisms of all models work.

KEYWORDS: Credit Volume, Current Account Deficit, Economic Growth, İnflation, Unemployment.