Role of Financial Development on Business Cycle in Turkey

Prof. Muhsin Kar  
Yıldırım Beyazıt University  
mkar@ybu.edu.tr

Res. Assist. Günay Özcan  
Necmettin Erbakan University  
gny_akel@hotmail.com

Abstract

Financial sector plays a vital role in economic development and many countries throughout the world have implemented a liberal approach in this sector to enhance this important role. To this end, there are a vast number of empirical researches to empirically capture the interaction between financial system and economic growth. The literature evolved from financial sector policies in the 1970s to contribution of financial sector to economic growth in the 1990s and 2000s and finally to determinants of financial development in the 2010s over the years. However, liberalization and deregulation in the financial sector has been one of the main reasons behind the financial crisis seen in both developed and developing countries in last two decades. This has also sparked a debate whether role of financial sector policies has been overemphasized in economic growth.

This paper, therefore, tries to empirically investigate the role of financial development on the business cycle in Turkey for the period 1960-2013. Examining this interaction between financial development and business cycle will increase our understanding to interpret the recent performance of economic growth in the country. After determining the business cycle by a band-pass filter, modern econometric techniques, namely unit root and cointegration analysis will be employed in the analysis. The preliminary results show that financial sector policies, to some extent, constitute a ground for the business cycle in Turkey.

Key Words: Financial Development, Business Cycle, Band-Pass Filter, Unit Roots, Cointegration.