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A Financial Analysis of the Liquidity Creation and the Capital Holdings of Turkish Banks

Gamze OZTURK DANISMAN
Bogazici University
Department of Management
Istanbul, Turkey
orcid.org/0000-0003-3684-6692
danisman.gamze@gmail.com

Abstract

In this paper, the impact of the amount of bank capital on the bank liquidity creation is explored using a sample of 21 Turkish banks and quarterly data for the period 2010Q1- 2017Q4. Our methodology involves fixed effects panel data estimation techniques and we use lagged independent variables to control for endogeneity. Our findings indicate that the liquidity creation of Turkish banks has dramatically increased over time and it is primarily driven by large banks. Our results from the regression analysis indicate that bank liquidity creation is increased under higher levels of capital for the whole sample. While a higher level of bank capital increases bank liquidity for small banks, the opposite case occurs for large banks, namely, the created liquidity decreases by more bank capital. We offer some important policy implications in that while regulators in the emerging markets impose capital requirements on banks, they need to consider the impact on liquidity creation of banks of different sizes.

Keywords: Liquidity creation, Bank capital, Regulations, Turkish banks

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