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International Capital Flows' Effects and Banking Sector's Profitability in Emerging Countries: Exploring Turkey Case

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ABSTRACT

Purpose – This paper investigated the effects of International Capital Flows (ICF) on Turkish banking sectors profitability from 1975 to 2016. The study is motivated (1) by the fact that ICFs can be growth engines and/or a source of instability (according to their volatility, the way of used or the environment); (2) by the scarcity of studies related to their effects on banking sector due to the concentration of previous studies on economic growth**.**

Design/methodology/approach – ICFs are examined in this study with a close interest to their five subcomponents and their effects on different types of Turkish banks. Two differents modèles (linear and non-linear) were used with Panel GMM based on 1974 observations. Variables used were: Return On Equity and Return On Asset of the banking sector as dependent variables; Foreign Direct Investments, Foreign Portfolios Investments, External Debts Flows, External Aids and Remittances as independent variables; GDP growth rate, inflation rate, interest rate, and trade openness as control variables for robustness check.

Findings – The main findings were as follows: Foreign Direct Investments, External Aids and Remittance had positive effects on banking profitability (ROE) in Turkey; while Foreign Portfolio Investments and External long Term Debts had negative effects. In addition, only Foreign Direct Investments had positive effects on banking profitability (ROA). Other capital flows'effects remained insignificant.

Discussion – The negative effects of portfolios assumes that investors chose to invest more in stock market and other capital markets than in banking sector for the considered period. The negative effects of External Debts assumes that the acceptable threshold for debt was crossed.

Source: Software calculation