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THE EFFECT OF MARKET POWER ON BANKS' RISK TAKING IN TURKEY

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Abstract

Given high costs of banking crises and the role of competition in the recent subprime crisis in the U.S., determining the reasons for a fragile banking system and the role of the competition on financial stability are important issues. However there is no theoretical and empirical consensus about the role of competition in banking system stability.

The aim of this paper is to understand the role of market power, measured by the Lerner index, on the risk taking behaviors of Turkish banks, measured by the non performing loans to total loans, provisions to total asset and Z-index for 2001-2008. Testing for this question is particularly important for Turkish banking system which experienced an intense regulation process after 2000 which led to a significant decrease in the number of banks from competitive point of view; however the result of the study indicates that there is no statistical relationship between market power and risk-taking of banks.

Keywords: banks, risk, market power, Turkey

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