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**B. TUGBERK TOSUNOGLU**

Anadolu University, Turkey

## **RELATIONSHIP BETWEEN FINANCIAL STABILITY AND ECONOMIC GROWTH IN TURKEY (2002-2017)**

### **Abstract:**

This study aims to analyze the relationship between financial stability and economic growth in Turkey as an emerging market. Financial stability, in general terms, is expressed as the resilience of the economy against the unexpected situations that may disrupt the multi-dimensional equilibrium in the financial system. Although a large number of studies have examined the effect of financial deepening on economic growth, there is a little evidence on the effect of financial stability or soundness on economic growth. A present study considering the 2002 - 2017 period which covers the implementation of inflation targeting monetary policy regime analyses the short and long-run dynamics of financial stability - economic growth relationship by using co-integration and ARDL techniques. Obtained results show that a steadily functioning financial system is a requirement for economic growth. In particular, financial leverage, capital adequacy, asset quality, and liquidity are important components of financial stability affecting the economic growth. Thus, formulating the efficient policies to support economic growth requires understanding the factors that affect financial stability.

### **Keywords:**

Economic Growth, Financial Stability

**JEL Classification:** F43, E44, E00