

The Effect of Credit Supply on House Prices: Evidence from Turkey

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Abstract:

House price developments in Turkey have received considerable attention from policymakers and academia alike as the divergence of prices from fundamentals over a sufficient period could be dangerous for overall economic activity. Thus, in this paper, we study the effects of both housing and consumer credits on house prices in an emerging economy, Turkey where housing credits is relatively a new phenomenon compared to advanced economies. The massive capital inflows and the unsaturated housing credit market together with low interest rates brought about a strong relationship between house prices and housing credits over the years. In this study, the effects of both housing and consumer credits on house prices are investigated for Turkey for the period of 2010Q1-2018Q4. Due to the endogeneity issue between house prices and housing credits, we use instrumental variable approach to address this endogeneity. The study employs the house price index and quality-adjusted hedonic house price index reported by the Central Bank of the Republic of Turkey. The results of the empirical analysis point out that both housing credits and the sum of housing and consumer credits display a significant impact on prices. The study shows the credit-driven nature of the economy in the example of housing market and in this respect provides some policy recommendation for sustainable economic growth.

Keywords: House Prices, Housing Credits, Instrumental Variable Method

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