

EconWorld2017@Paris

Influencing factors of Capital Adequacy Ratio of the Deposit Banks: A Panel Regression Analysis for Turkish Banking Sector

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ABSTRACT

The aim of this paper is to determine the factors that affect capital adequacy ratio of the deposit banks. For this purpose, 24 deposit banks of Turkey are taken into the consideration. While analyzing similar studies in the literature, 13 different variables are selected that may affect on capital adequacy ratio. Additionally, annual data of these variables for the periods between 2005 and 2016 is evaluated by using panel regression analysis. It is concluded that capital adequacy ratio of the banks is negatively related with economic growth rate and positively related with inflation rate. This shows that in case of economic decline, banks prefer to have higher amount of capital to have a more secured situation. Also, because higher inflation rate increases the uncertainty in the market, it will lead banks to have higher amount of capital. Furthermore, the results also show that there is a negative relationship between net balanced sheet position of the banks and capital adequacy ratio. This means that when banks have open positions, they prefer to increase capital amount. The main reason is that in case of high currency risk, banks opt for having higher amount of capital to minimize this risk.

KEYWORDS Banking; Capital Adequacy Ratio; Panel Regression Analysis

JEL C32, G21, G31