

Household Debt in Turkey: The Critical Threshold for the Next Crisis

Alper Duman

Izmir University of Economics

Turkey by and large avoided the financial meltdown of 2008-2009 thanks to its moderate level of household debt ratio and relatively sound public finance structure. The stylized fact is that the consumption loss as a percentage of GDP has been greater for the countries with higher growth rates of household debt-to-income ratios prior to the global crisis. Although Turkey also witnessed a surge in household debt levels, the starting point was so low that the general effect was not as destructive. We study two main factors that will make this dynamic more fragile and hence increase the likelihood of a financial crisis in the future: (1) Due to formalization of land and real estate markets, home ownership rates decline for the median group of households which constitute the backbone of the labor force and (2) The share of consumer credit in household budgets increase steadily for the lower and middle income groups. Both factors have the potential to induce dramatic rises in household debt-to-income ratios and create systemic financial risks. We use a simple Kaleckian model to study the relationship between these factors and the critical threshold of household debt-to-income ratio in Turkey.