Abstracts of All Publications: 12 published papers, 1 paper under review and 1 monograph (accepted with revisions)

1) Erdinç, Didar (2002). "Bulgaristan'daki değişim sűrecinde Tűrk azınlığın ekonomik durumu [Economic Situation of Turks and Pomaks during Bulgarian Transition]", in Gűzel, Çicek, and Koca (editors), *Tűrkler*, Vol. 20: *Tűrk Dűnyası*, pp. 394-400. Ankara: Yeni Tűrkiye Yayınları.

Abstract: [in English] The economic cost of transition was not equally shared among the Bulgarian population as the ethnic minorities such as Turks, Pomaks and Gypsies were hardest hit and suffered the most from the structural bottlenecks and the recurrent crises in the Bulgarian economy in the 1990s. The dramatic rise in unemployment and poverty among these ethnic groups following the closure of state enterprises, loss of export markets for agricultural products and their unequal access to land restitution during transition were at the core of the economic problems that they faced. The issue deserves significant attention because economic inequality between a majority and a minority group has the potential to fuel ethnic tension and clashes with these groups representing around 15% of the total Bulgarian population. This paper examines the economic dimensions of ethnicity and ethnic politics in Bulgaria with reference to the factors behind the economic hardships faced by the ethnic Turks and Pomaks in the 1990s and argues that the Bulgarian transition was spared from a full-blown ethnic crisis largely because of the restoration of the political rights, especially of Turks which created a platform for protecting their economic interests (voice), the mass emigration of the Turkish minority to the neighboring Turkey (exit), and the employment generation effect of the economic cooperation of Bulgaria and Turkey after the signing of the Bilateral Trade Agreement (July 11, 1998). I find that the politically mobilized Turkish minority benefited economically from the active ethnicity based politics and improved its access to economic resources. In addition, there is no basis for the argument that the Turks and Pomaks faced economic discrimination along ethnic lines and that ethnic discrimination transformed itself into economic discrimination against these groups as all Bulgarians shared the costs of economic hardships during the process of transition.

2) Erdinç, Didar (2009) "From credit crunch to credit boom: transitional challenges in Bulgarian banking (1999 - 2006) *Problems and perspectives in Management*: PPM. Vol. 7.2009, 1, p. 152-165

Abstract: New econometric evidence is provided to identify the determinants of the rapid credit growth in Bulgaria and evaluate whether the credit boom has increased bank fragility, based on a panel data analysis of 30 Bulgarian banks over the 1999-2006 period. Employing Fixed effects and GMM estimation techniques to explore the link between credit and capital base in a partial adjustment framework, the study provides evidence for the growing risks of credit expansion and assesses the potential for banking distress in Bulgaria. The paper argues that after a period of severe credit crunch during 1997-1999, foreign-owned Bulgarian banks have financed a credit boom, especially since 2003 but this indicated growing risk in lending and increasing vulnerability to a systemic banking crisis as banks reduced their capital base and registered an increase in non-performing loans. Aggressive lending by less-capitalized banks without appropriate loan loss provisioning has also been verified empirically in a number of panel specifications. While well-capitalized banks have tended to expand credit in proportion to their capital base, banks with weak capital base engaged in excessive risk taking, and expanded credit despite growing ratio of non-performing loans. Hence, the credit boom has come at the expense of increased banking fragility in Bulgaria, raising the probability of bank failure in the event of a downturn in global financial flows which became a disturbing reality in 2008.

3) Erdinç, Didar. (2002) The Bulgarian Model of Ethnic Peace During Transition to

Democracy.
Online article. home.comcast.net/~rossen47/savingbulgarianjews/BulgarianEthnicModel.doc

Abstract: With the collapse of Communism, Bulgaria was ripe for "ethnic conflict" with a substantial Turkish minority repressed under the totalitarian regime of the Zhivkov government and subjected to forced assimilation thorough the "name-changing campaigns" in the mid-1980s. A potential danger of violent ethnic conflict existed during the transition to democracy because of the trauma of the massive migration of Turks in 1989, and the uncertain nature of transitional politics. Moreover, the burden of economic transition and recurrent economic crises in the 1990s fell disproportionately on all ethnic minority groups, including Turks who suffered a serious blow to their living standards because of the closure of state enterprises, the loss of export markets, and unequal access to land restitution and employment. This paper argues that despite the existence of explosive social and economic conditions, the country successfully escaped ethnic violence and contained a potential ethnic strife by quickly restoring the political and social rights of the Turkish minority and allowing for the active participation of the "Movement for Rights and Freedoms" (MRF), the so-called "Turkish Party" in the parliament. The creation of democratic political institutions led to a fair representation of the ethnic Turks and helped contain ethnic demands through political representation and access to power. The catalyst for ethnic peace was the pragmatic policies of the Bulgarian political elite and the moderate political stance of the MRF, which distanced itself from extremist politics, thereby calming fears of regional autonomy for Turks. Equally important, the Turkish minority in Bulgaria, although numerically very strong, has never shown a separatist tendency.

4) Erdinç, Didar (2003) "Bank Performance and Credit Availability in the Bulgarian Banking Sector, 1997-2001", *Journal of East-West Business.* Vol.9, Nos. ¾, 137-161

Abstract: The 1997 financial crisis wiped out 30% of the Bulgarian banking sector and created severe strains on corporations. With the establishment of the currency board in 1997 and the new Banking Law, which set the legal framework for proper bank supervision, major Bulgarian banks were rapidly privatized through sales to foreigners, now controlling around 80% of bank assets. Since 1997, the Bulgarian banking sector has recovered from the crisis by improving its profitability and efficiency and adopted a legal framework compatible with the European Union standards. Based on a regression analysis of bank balance sheets and income statements, this paper shows that low level of credit volume during 1997-1999 derived from banks' cautious stance towards credit making reflecting both the ongoing risks in the real sector, and the stringent new banking regulations. Large banks, however, benefited from scale economies in improving profitability in the same period.

5) Erdinç, Didar and Emilia Zankina. (2013) "Only an EU Apart: Bulgarian-Turkish Economic and Political Relations in the Post-Accession period," Institute for Cultural Relations Policy, The Balkans Dialogue: Conflict Resolution and EU Accession Politics in the Balkans and Turkey. Conference proceedings.
[http://culturalrelations.org/Files/Conferences/TheBalkansDialogue/ICRP-The_Balkans_Dialogue-Conference_Proceedings.pdf#page=275]

Abstract: This paper analyses the dynamics and the evolution of the Bulgarian-Turkish economic and political relations following Bulgaria's accession to the EU against the backdrop of changing Bulgarian socio-cultural attitudes towards Turkey and its large Turkish minority. Despite the lingering effect of the anti-Turkish propaganda during the former communist regime, the specific Bulgarian "memory of the Turkish bondage" and the ethnic assimilation of the Turkish minority in mid-1980s, Bulgarian-Turkish relations progressed rapidly on both the economic and political fronts especially in the mid-1990s after the Bulgarian transition to democracy and the free market economy. Strong trade and FDI ties developed in recent years based on bilateral agreements and a growing number of Turkish firms and joint ventures with Bulgarian partners have been established and penetrated the market, as Bulgaria came to be viewed as a

gateway to the larger EU market. On the political front, the EU membership has given Bulgaria greater political leverage, while at the same time constricting Bulgarian-Turkish relations within the framework of EU-Turkish relations and potential EU membership for Turkey. Additionally, the two countries interact within a complex web of political and socio-cultural relations marked by a history of tension and conflict with much undeveloped potential for closer cooperation. The Bulgarian domestic political environment seems to be the key obstacle in developing stronger ties, along with the newly found fear of "neo-Ottomanism" due to the growing importance of Turkey as a key economic and political power both in Europe and Asia. Despite the much-praised "Bulgarian ethnic model" of the 1990s, and the peaceful democratic transition that stood apart from the spreading ethnic conflict in the Balkans, the issue of ethnic Turkish minority rights is a recurring source of contention in Bulgaria's political arena. Notwithstanding these trends, the advent of Turkish film productions has started to change Bulgarian perceptions towards Turkey in a more positive and objective direction, while attenuating existing prejudices. This is taken as evidence for our claim that growing cultural interaction between the two nations carries the potential to advance future economic and political cooperation. We use a combination of aggregate data, public opinion polls, and interviews to analyze the evolution of economic and political relations and to identify obstacles and potential areas of further improvement.

6) Greenberg, Ellen and Didar Erdinç. (2001), "Corporate Culture in Transition: Case Study Evidence from Bulgaria", *Global Business and Technology Association, International Conference Proceedings,*
[http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.194.3816]

Abstract: This paper studies the patterns of corporate culture in Bulgaria with a focus on the impact of communism and transition on Bulgarian organizations. As is well known, Communism left a unique legacy in the organizational culture of the transitional economies by creating a peculiar cultural syndrome at the enterprise level with its distinct set of values, norms, and standards based on the notion of collectivism. This, in turn, stifled the development of management and organizational culture based on risk-taking, initiative, creativity, transparency, and autonomy and prevented competition, and strategic management to achieve efficiency and productivity. Based on surveys and interviews, case studies provide evidence of the underlying characteristics of the current state of the Bulgarian corporate culture in the aftermath of the transition shock. In particular, we try to gauge the impact of transition in transforming the corporate culture in Bulgaria towards more flexibility, competition and risk-taking. We also study the degree of inertia in the organizational culture of Bulgarian companies while highlighting the visible signs of change in terms of conflict management between managers and workers, attitudes towards privatization and the incentive structures implemented to improve company performance.

7) Erdinç, Didar. (2010), "Does a Credit Boom Increase Bank Fragility? Transitional Challenges in Bulgarian Banking, 1999-2008", *Eastern European Economics,* Volume 48, Number 3 / May-June.

Abstract: Based on a panel data analysis of thirty Bulgarian banks over the period 1999-2006, I identify the determinants of Bulgaria's rapid credit growth and evaluate whether the credit boom has increased bank fragility. I employ fixed effects and generalized method of moments approaches to explore the link between credit and capital base in a partial adjustment framework and find evidence of growing risks of credit expansion, which raise the probability of banking distress in the event of a downturn in global financial flows, as occurred in 2008. The credit boom has come at the expense of increased banking fragility, as banks reduced their capital base and registered an increase in nonperforming loans. Amid a quickly unfolding global financial crisis, conservative supervision of the banking sector by the Bulgarian National Bank and a stable currency board regime was a bulwark against potential banking distress and ensured financial and macroeconomic stability without resorting to International Monetary Fund funding.

8) Erdinç, Didar (2013) "Monetary Transmission and Bank Lending Channel under the Currency Board: The Case of Bulgaria, 1999-2010" in Nishiyama, Yasuo (Editor), *Monetary Policy: Roles, Forecasting and Effects*, Nova Science Publishers, Inc. USA, pp.161-192.

Abstract: How do transitional economies' banking sectors transmit monetary policy? In particular, how does monetary policy interact with bank lending under a currency board regime? In the Bulgarian currency board regime, the lev is irrevocably fixed in terms of the anchor currency, the euro, and the Eurozone monetary shocks are mainly transmitted to the Bulgarian economy through changes in the key interest rates and the monetary base. Moreover, Bulgarian banks, mostly foreign owned, remain dependent on parent banks located in the Eurozone economies for funding corporate loans. These special features of the Bulgarian monetary and banking environment warrant a detailed study of the monetary transmission of the Eurozone shocks to its domestic financial sector, in particular, to the bank system and its ability to extend loans. After assessing the relative strength of monetary integration between Bulgaria and the Eurozone by means of cointegration methodology, this chapter studies the bank lending channel of monetary transmission using a panel of quarterly time series of Bulgarian commercial banks for the period 2001-2010 with a focus on the differential effects of monetary policy shocks on the growth rate of loans for banks with different characteristics. The econometric results, based on dynamic panel specifications of the Generalized method of moments (GMM) methodology suggest that banks respond strongly, in terms of their lending, to monetary impulses as measured by the base interest rate but the degree of its intensity varies with several bank specific measures, such as size, capitalization, and liquidity. This is taken as evidence for the presence of the lending channel in the Bulgarian case. The chapter also claims that the policy reaction of the BNB to the credit boom of 2002-2007 and the subsequent global financial crisis implies an active macro-prudential oversight on the financial sector despite the limited number of instruments at its disposal. Although the data is brief, an attempt is also made to capture the impact of the global financial crisis (2007-2009) on the bank lending channel in the Bulgarian context.

9) Erdinç, Didar. (1999), "Currency Board Alone is No Panacea for Bulgarian Economy," *AMCHAM Magazine*, *American Chamber of Commerce-Bulgaria Publications*, Issue 9 (33), December.

Abstract: Adopted in the midst of a deep economic crisis, currency board in Bulgaria proved to be a major success in the span of almost two years in ensuring macroeconomic stability, and rebuilding confidence in the economy. Yet, currency board alone is not a substitute for structural reform, instituting rule of law, and eliminating corruption which are essential factors for attracting FDI and speeding up economic growth. Banking sector, which is currently in a state of credit crunch (1997-1999) needs to be reformed so as to become more efficient in crediting and intermediating potential flows of foreign capital.

10) Erdinç, Didar (2007) "Suboptimality of the Friedman Rule under Credit Market Imperfections" *the 3rd International Conference on Business, Management and Economics*, Yaşar University, Conference Proceedings.

Abstract: Friedman Rule is a useful benchmark in a frictionless environment but not necessarily optimal in the presence of market imperfections such as nominal contracts, wage rigidities and under credit market imperfections. Indeed, the actual practice of central bankers is at odds with the Friedman rule, and even departs from the zero inflation objective as revealed by the small positive inflation targets adopted by the Bank of England, the Federal Reserve and the European Central Bank. The historical behavior of interest rates and inflation are widely different from this theoretically optimum level suggested by the Friedman Rule. This paper shows that in a monetary growth model with overlapping generations and production characterized by credit market imperfections, a dynamically efficient economy which maximizes steady state consumption (the golden rule of capital formation) exhibits the Tobin effect under credit rationing and renders the Friedman Rule suboptimal. Unlike many models which find Friedman rule optimal with storage technologies but not production, the paper explicitly focuses on a production economy where

stochastic relocation of agents creates an endogenous transactions role for fiat money and gives rise to financial intermediation along with a costly state verification framework. The paper generates conditions under which monetary policy based on the Friedman Rule may be suboptimal in maximizing social welfare and economic growth. In this production economy with credit market imperfections, a zero interest policy under the Friedman Rule is suboptimal in the presence of the Tobin effect and a small positive inflation rather than zero inflation or deflation may be optimal for maximizing stationary welfare.

11) Erdinç, Didar. (2008) "Determinants of Foreign Direct Investment Patterns: A Panel Comparison of Turkey with the New European Member States (the Central and Eastern Europe)" the 4th International Conference on Business, Management and Economics (ICBME'08), Conference Proceedings.

Abstract: Turkey had a rather disappointing performance in attracting FDI relative to its main competitors, the new member states of the European Union in the Central and Eastern Europe (CEECs) with its political and macroeconomic instability among the major contributing factors to this outcome until 2003. Since then, Turkey began to attract significant amount of FDI, partly because of its relative success in initiating structural reform, improving FDI legislation, speeding up privatization and most importantly, achieving macroeconomic stability. Initiation of accession talks with the EU in 2005 also contributed significantly to the surge in FDI flows, improving its image as a lucrative FDI destination. This paper analyzes in a panel framework the impact of macroeconomic factors and growth on the FDI patterns of Turkey and CEECs, after controlling for labor cost and institutional quality. It is found that macroeconomic stability, especially low inflation, and growth performance have relatively stronger positive impacts on FDI in Turkey as compared to the CEECs, possibly compensating for other areas where it lagged behind such as government accountability, rule of law, corruption and regulatory quality. A clear message from the EU on Turkey's membership prospect is likely to be vital to its FDI and growth provided that Turkey maintains a strong momentum for its privatization process and structural reform in an increasingly challenging global FDI environment.

12) Erdinç, Didar and Ligia Dorobantu (2008), "Workers' Remittances and Growth in Central and Eastern Europe", the 9th Econometrics and Statistics Symposium (EISEMP), Inonu University, Conference Proceedings.

Abstract: Despite the growing importance of workers' remittances in total capital flows, the relationship between growth and remittances has not been adequately studied empirically in the context of transitional economies, especially in a comparative framework with other recipient countries. This is surprising because migrants from the Central and Eastern European Economies (CEECs) contribute significantly to their home economies through remittances, influencing investment and consumption patterns. This paper examines the impact of workers' remittances on growth, investment and consumption in a number of CEECs in comparison to Latin America and the Middle East-North Africa-Turkey (MENAT) in a panel data framework. Using annual data ranging from 1993-2006, it is shown that as compared to Latin America, both investment and consumption are positively affected by the amount of remittances sent by workers' to their home countries in the CEECs after controlling for several important determinants of growth such as openness to trade, inflation, real interest, credit-GDP ratio as a measure of financial deepening. In the CEECs, as in the Middle East, the workers' remittances affect growth both through consumption and investment while the latter effect is stronger. By contrast, in Latin America, remittances mainly impact consumption rather than investment, even having a negative impact on growth. To gauge these differential effects, we use fixed and random effects estimation as well as GMM strategy to account for country-specific heterogeneity and to control for possible endogeneity among regressors. Our findings also suggest that workers' remittances could be a significant impetus for growth, working through the investment channel, and their significance conditional on credit in investment equations suggest that they can help overcome the liquidity constraints by providing an alternative to formal channels of financing.

13) Erdinç, Didar and Altynai Mukambaeva. 2015. *The Impact of Cultural Diversity on Economic Growth and Convergence*, monograph, accepted for publication with revisions, LAP LAMBERT Academic Publishing, Germany

Abstract: This book explores the role of cultural differences in explaining the sustained pattern of cross-country differentials in economic growth and convergence. Despite the predictions of conventional economic theory, there is little if any evidence for convergence across poor and rich nations. We believe cultural differences - as non-economic factors - such as individualism, attitude towards risk, power relations and long-term orientation do influence the process of economic growth and may improve our understanding of how they facilitate or hinder convergence. Our research discusses the theoretical reasons for the significance of cultural variables in the growth process. Using a panel data of 163 countries over the period 1970-2012, we empirically specify neo-classical growth regressions, which incorporate a series of cultural variables in addition to the standard determinants of growth. Cultural variables are complex, hard to quantify and vastly differ across nations. Hence, our paper takes on this challenge of employing a unique set of data based on Geert Hofstede's indexes that quantify culture in several dimensions. Based on our empirical findings, cultural variables do indeed affect the process of growth and improve our understanding of the existing divergences in economic development across nations.

14) Erdinç, Didar and Andrey Gurov (2014). "The Effect of Regulatory and Risk Management Advancement on Non-Performing Loans in European Banking, 2000-2011" Submitted for publication at *Journal of Financial Risk Management*.

Abstract: We study whether the implementation of advanced risk management techniques to manage credit quality has a significant impact in controlling credit risk and hence, reducing the level of non-performing loans (NPL) in emerging and advanced European banks for the period of 2000-2011. The analysis reveals that there exists a wide variation in terms of the adoption of such advanced techniques (internal rating-based, IRB) across European banks, and that emerging Europe which suffered the most from the surge in NPLs in the post-crisis period lags significantly behind the Eurozone economies in terms of the intensity of IRB adoption rates. We employ dynamic GMM estimation methods in our panel regressions to investigate the effect of such regimes on the level of NPLs at a country level. Our findings confirm that intensity of IRB usage within the banking system leads to a statistically significant decrease in the aggregate amount of non-performing loans, especially in the post-crisis period, after controlling for macroeconomic and bank-specific characteristics of the individual economies. This result is consistent with the view that the efficiency of credit risk management may turn out to be critical for avoiding widespread distress and for improving the profitability and solvency of banking systems as a whole, which in turn leads to better allocation of resources and faster economic growth.