

ABSTRACT

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TITLE of the STUDY: SRELATIONSHIP BETWEEN EXCHANGE RATES AND FOREIGN TRADE: CASE OF TURKIYE

Foreign trade volume of Turkey has indicated a significant improvement in last years. This fact also led to increase of trade deficit. In recent period, there occurred revaluation of Turkish Lira thanks to floating exchange regime. Export volume has exceeded expectations. On the other hand, all these facts give rise to debates if export volume is affected by real exchange rates. Revaluation of Turkish Lira also promotes import volume since it leads to cheap foreign goods. However, it also promotes export strength of industries which dependent on import of raw or intermediary materials.

This study evaluates the sensitivity of Turkish trade deficit to fluctuations in real exchange rates. Result of the study reveals that despite longer devaluation periods, trade deficit has a tendency to constantly grow up. In this framework, it can be argued that foreign exchange policy could not establish a positive trade balance. It is also seen that trade volume could not react to fluctuations in exchange rates. Although import figures of Turkey are associated with that high domestic demand, increase in exports can be related to increase in the number of export markets and economic growth in those markets.

KEYWORDS: Exchange Rates, Economic Growth, Foreign Trade, Current Deficit, Regime