

# The Impact of Competitive Exchange Rate Policies and Volatility on Turkish Exports

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## Abstract

Competitive exchange rate policies are often adopted by countries to influence the value of their currencies and boost their trade competitiveness. This paper investigates the effect of such a policy implemented by Türkiye since December 2021, which involved devaluing the Turkish lira to stimulate exports. Specifically, this study emphasizes the significant role of exchange rate volatility, rather than just the exchange rate level, in shaping export performance. The paper employs a time-varying parameter regression model, considering the numerous shocks the Turkish economy experienced between 2002 and 2021. The data, spanning 2002: Q1 to 2021: Q2, encompasses key variables including quarterly exports, real effective exchange rates, and GDP of Türkiye's top five European trade partners. Empirical findings suggest that although a devalued real effective exchange rate and increased GDP do boost exports, exchange rate volatility exerts a more pronounced negative effect, necessitating strategies to manage and minimize such volatility for effective implementation of competitive exchange rate policies.

**Keywords:** Competitive exchange rate policy, Devaluation, Export performance, Exchange rate volatility, Time-varying parameter regression