Chapter 21
Effects of the Exchange Rate on the Export Share of Sales in Borsa Istanbul Firms

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ABSTRACT

For many years, the current account deficit problem is on the agenda of policymakers and academics in Turkey. With the exchange rate shock experienced in 2018, the importance of the current account deficit has become clearer. The relationship between exchange rates and trade flow is one of the issues frequently discussed in the literature. In this study, to contribute to the subject from a different perspective, the 12-year data of 230 companies traded on Borsa Istanbul from 2008 to 2019 were used and the share of these companies' exports in their total sales was analyzed. According to the research findings, there is a strong, statistically significant, and positive relationship between real Euro/USD exchange rate and export shares of Turkish firms. There is also a positive relationship between the real Euro rate and export share of automotive firms in Borsa İstanbul.

INTRODUCTION

Turkey is a developing country with a current account deficit. Sustainable growth of the Turkish economy can only be achieved by minimizing the current account deficit. So, increasing the export volume of companies in comparison with total import is needed. In this study, the relationship between exchange rates and export share of companies in Borsa İstanbul is analyzed.

There are several studies on the effects of currency exchange rates has been done in the literature. Most of these studies are focused on exchange rate volatility and macro-level analyses rather than using company level statistical data. The common finding of a significant part of the studies on this subject is that the volatility in the exchange rates limits the export volume of countries (Sugiharti, Esquivias

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and Setyorani, 2020; Chi and Cheng, 2016; Auboin and Ruta, 2013). The other studies are focused effects of the exchange rate on the trading flow in terms of quantity or value. These studies have found that lower valuation of local exchange rate support export performance. (Lee and Lee, 2017; Sonaglio, Campos and Braga, 2016).

This study aims to determine the relationship between exchange rates and export share of total sales of firms listed in Borsa İstanbul. The findings of this research can be used by monetary and fiscal policymakers, academics and also the investors in Borsa İstanbul. This research contributes to the literature with (1) the usage of most updated data including 2018 exchange rate shock, (2) the independent variable selection of Euro / USD exchange rate which has not used in similar studies, and (3) the company-specific data and the sector-specific analysis.

In this study rather than focusing on country-level data, the panel data of 2485 firm-year observations of companies in Borsa Istanbul have been used over 2008 and 2019. In the study, correlation analysis, unit root test, and robust least square methods have been implemented. For the dependent variable, to efficiently determine the decisions of companies, the export share in total sales of the companies has been used. Because the European Union is the largest trading partner of Turkey, European Union's economic growth rate and the real exchange rate of Europe are selected as independent variables. In the export of Turkey, Euro is the dominant currency however in the import side USD becomes dominant. So, to reflect the effects of different currency usage in import and export, the real Euro / USD exchange rate has been added in the model as an independent variable. The real effective exchange rate of TRY, GDP growth of Turkey and the difference between growth rates of Turkey and Europe are other independent variables.

The remainder of the section is structured as follows. In the background part, the studies in the literature are summarized. The main topics covered in this part are the effects of exchange rate volatility and exchange rate change and misalignments. In the data and methodology part, the data and empirical methodology and the findings of the research are explained. The section is finalized with future research directions and the conclusion.

Background

The Bretton Woods system which requires convertibility of one ounce of gold with 35 US dollars and fixed exchange rate of other currencies to the US dollar has been terminated in 1971(Van, 1978). After the Bretton Woods system, most of the countries have selected floating rate regimes and this causes volatility and misalignment of value between currencies.

Exchange rates affect companies in three main ways. The first one is related to revenues. The companies which have export activities benefit from low local currency rates because this makes their export income higher than their local costs. The second one is related to financing. Especially in developing countries, most of the companies that are looking for long term financing prefer FX-based borrowing. Due to changes in factors such as inflation, local currency's interest rates are very higher in the long term. The last one is related to the FX-based costs of exporters. Because of the integration of the world economy, most of the exporters are also the importers. For example, Turkey is an energy importer and a significant amount of Turkish import is in US Dollars currency. On the other hand, the biggest market for Turkish companies is European countries. Euro is used in the export to the EU. So, the Euro/USD rate is very important for Turkish companies.