Currency Zone Determinants: Turkey Application

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Abstract

Increasing international trade and capital movements in developing countries have made sudden and large changes in currency values critically important. In general, in the economic literature, in order to maintain a stable economy, it is aimed to maintain the economic cycle by fluctuating the nominal currency in its trend. In this context, the study constructed an exchange rate pressure index with nominal currency, reserves and interest rate variables, and the value ranges (or cases) of this index were transformed into four categorised dependent variables. These categories are: the range of 0.5 to 1.5 standard deviations above the index mean is classified as 'currency break', the range of 1.5 to 3 standard deviations above the index mean is classified as 'currency crisis', the range of 3 standard deviations above the index mean is classified as 'currency depression', and the other values of the index are classified as 'currency trend' cases. Using the Multinomial Logistic Regression (MNLR) method, the model was constructed based on monthly data from the Turkish economy for the period between January 1992 and December 2020. The model found that the ratio of financial account to reserves (FA/R), the real exchange rate (RER), the ratio of exports to imports (E/I), and the ratio of foreign exchange deposits to reserves (FXD/R) were statistically significant. According to this model, a decrease in the FA/R, RER, and E/I variables, along with an increase in the FXD/R ratio, raises the probability of a currency crisis and currency depression in the Turkish economy.

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