

# [Us dollar and turkish lira exchange rate](https://assignbuster.com/us-dollar-and-turkish-lira-exchange-rate/)

In finance, the exchange rates which are also known as the foreign-exchange rate, forex rate or FX rate between two currencies is how much one currency is worth in terms of the other. In other words, it is the value of a foreign country’s currency in terms of the home country’s currency. Furthermore, the foreign exchange market is considered as one of the largest markets dominating in the world, and approximately about 3. 2 trillion USD of currency changes transactions takes place every day. Specific currencies become more valuable when demand for it is greater than its supply. On the other hand, it will become less valuable or in other words it will depreciate whenever demand becomes lower than its supply. Investors all over the world will probably choose to buy certain currencies only if the return on this particular currency is high. Therefore, the higher the countries interest rate, the greater will be the demand for that countries currency.

We chose to compare the $U. S against the Turkish Lira as we know that turkey is a very strong country with a floating currency; that is, not fixed exchange rate. Turkey is well known and popular for exporting textiles and clothes all over the world and taking to consideration its past history at a stage in time it had ruled many parts of the world and so it was among the most powerful countries ruling most of the Arab countries. Therefore, we chose to select the Turkish Lira and compare it to exchange rates of the $U. S and analyze what events or factors have lead to the depreciation or the appreciation of the Turkish lira.

Our aim in this research project is to develop a general understanding of the forex market world and be able to compare and analyze different markets in the exchange market as well as relating national and international events and factors contributing to the success or the failure of a particular currency. Moreover, we will gain the knowledge of tips of smart international business activities such as currency exchange investments for instance when to buy or sell certain goods under certain currencies.

## Turkey Economy Overview:

Government Type: Parliamentary , Representative, Democracy.

Currency: Turkish Lira

“ Turkey economic is largely dominated by modern industries and the services sector. Also, it’s one of the leading countries in world in producers of agricultural products; textiles; motor vehicles, ships and other transportation equipment; construction materials; consumer electronics and home appliances and they import non-auto consumer goods, fuels, production machinery and equipment, non-fuel industrial supplies, motor vehicles and parts, food, feed and beverages to partner in European Union, China, Canada, Mexico and Japan Furthermore, the gross domestic product it worth in December 2099 -6. 50% -7. 00% Jun 2009 of the world economy, according to the World Bank.[1]“

As we can see from the table above, the Turkish lira inflation rate has experienced a noticeable disinflation rates which is defined as the slowing in the rate of the inflation as well as a remarkable decline in the volatility of inflation which is due to some factors such as tight fiscal and monetary policies. However, previously since the 1970’s and the 1990’s the Turkish lira had been depreciating in its currency value due to turkey’s constant inflation.

## US Economy Overview:

Government Type: Constitution-based federal republic; strong democratic tradition.

Currency: US Dollars.

“ The economic history of the United States has the largest national economy in the world in both nominal and purchasing power parity. In addition, US have a stable overall GDP growth rate, a low unemployment rate, and high levels of research and capital investment. The United States Gross Domestic Product is worth in December 2009 -1. 90% September 2009 -2. 50% of the world economy, according to the World Bank. The US has several export & import; first the export is machinery and equipment, industrial supplies, non-auto consumer goods, motor vehicles and parts, aircraft and parts, food, feed and beverage to partner Canada, European Union, Mexico, China and Japan. In addition, US import non-auto consumer goods, fuels, production machinery and equipment, non-fuel industrial supplies, motor vehicles and parts, food, feed and beverages. To the Main import partners are: European Union, China, Canada, and Mexico and Japan[2]“.

## N/A , 0. 03%(Jan 2009)

Table Source: InflationData. com (2003- 2009). Inflation Rate in Percent

for Jan 2000-Present. Retrieved on 8-12-2009. http://www. inflationdata. com/inflation/Inflation\_Rate/CurrentInflation. asp

On the other hand, U. S. A seems to have similar inflation rates across the years, as the U. S economy is considered to be the largest in the world.

## Forex rate system used in Turkey:

“ Turkey’s exchange rate has been changing over the past years and this can be related to its economy validated in many ways. In 1990-1997 Turkey exchange rate system was considered as a crawling band which means that the “ Currency is maintained within certain fluctuation margins around a central rate is adjusted periodically a fixed preannounce rate or in response to change in selective quantitative indicators[3]“.

However the exchange rate in 1998 -2000 was crawling peg which define as the “ currency is adjusted periodically in small amount at a fixed preannounce rate or in response to change in selective quantitative indicator.[4]“

Since 2001 the exchange rate change to independent floating which can be defined as “ the exchange rate is market determine with any foreign exchange intervention aimed to moderating the rate of change and preventing undue fluctuation in the exchange rate rather than at establishing a level for it[5].” This change has taken place after the financial crisis the country had at the same time which result the Turkish lira to depreciate against the euro.[6]“

“ After conducting Turkey the floating exchange rate system had lost more than 50% of the Turkish lira value. Therefore the lira appreciated in the mid of 2002; however their sensitivity fluctuated in the exchange rate. After this appreciation, the lira depreciated again due to the Iraq crisis. On the other hand the Turkey government takes some action to prevent the lira and its economy from certain events such as switching to formal inflation target regime. On 2006 the central bank implemented the formal inflation target and it used the interest rate as a short instrument which was the result to depreciate the lira again.[7]“

## Forex rate system used in US:

As a matter of fact, the U. S mainly went through two different exchange rate regimes. The first referred to what is commonly known as the Bretton woods system of fixed exchange rates and this has been the period from 1958 till 1973. However, after that period and until this day the exchange rate regime is referred to as the managed floating . The first, which lasted effectively from December 1958 to March 1973, was the Bretton Woods system of fixed exchange rates. In the second, which began in March 1973 and has continued to the present, exchange rates have been subject to managed floating which is characterized by fluctuating exchange rates on a daily basis however they are affected by the intervention of the U. S central bank in order to stabilize their currency by buying and selling their own currency.

## Turkish Lira history:

## First lira

“ Turkish lira is the currency of turkey that is subdivided into 100 Kurus. Turkish lira’s symbol is TL and according to the international standard its code is TRY. Turkish lira had experienced many difficulties and changes in its history. To begin with, the Bimetallism system was adopted in turkey between 1881 and 1884. “ Bimetallism refers to the fact that the country functions on a double standard in other words both gold and silver were used. According to turkey at that time: 1 lira = 519 grams pure gold = 99. 8292 grams pure silver[8].”

“ Then, the classical gold standard was adopted in turkey from 1881 until the 1914. Gold standard means that “ under this particular standard the exchange rate between any two currencies will be determined only by their relative gold contents.[9]” However this system vanished and the gold lira was worth nine lira money. As a result, and after all those changes that took place in turkey’s monetary system, they pegged to British pound, then to French France, and finally to U. S. A dollars[10].”

## Second lira:-

“ After all the difficulties in January 2005 six zeroes has been deleted from the lira currency and the Turkish lira generally became the official currency and unit of payment in turkey. The categories of liras book notes were 1, 5, 10, 20, 50, and 100. In addition the coins Category were 1, 5, 10, 20, 50, 100.[11]“

“ As a matter of fact, a lot of countries drop zero(s) from their currency in order to facilitate their transactions and avoid any mistakes.

“ Dropping six zeroes and the effort to decline the inflation impact on the currency is a useful way for turkey to have a good reputation in its lira currency. Therefore dropping the zero from its currency had reduced the mistakes and problems that had arisen in the calculation side and record problems. In short, the transition to the New Turkish lira was necessary both for the expected positive effects on the currency, as well as for its reputation. Furthermore, the New Turkish Lira is considered also as a symbol or a sign of Turkey’s determination to reduce inflation.[12]“

## Turkish Lira against the U. S. Dollar during the past 5 y

The below graph demonstrate the behavior of the exchange rate of Turkish Lira against the U. S. Dollar during the past 5 years, which reflects the economic situation in both countries.

Table Source: Yahoo! finance (2009). TRY/USD (TRYUSD= X). Retrieved on 8-12-2009. http://finance. yahoo. com/q/bc? s= TRYUSD= X&t= 5y&l= on&z= m&q= l&c

## Table outlining the exchange rates desired on a daily basis:

In our research, we are going to study the exchange rate fluctuation between the Turkish Lira (TL) and the U. S Dollar (USD) during the period from 14 September to 4 December 2009. Our study depends on using the daily data of FX of TL against the USD and will focus on analyzing the factors and events that affect the exchange rate and interpreting the causes of fluctuation during the period of study.

## The exchange rates graph on a daily basis:

## Analysis of national and international events contributing to results we obtained from the graph:

## 17 September to 1 October

As observed from the graph, the Turkish Lira had a downward sloping against the US Dollar starting from 17th September to 1st October 2009; this may be due to the fallowing factors and events.

## Events:-

Turkish bond yields rose on due to worries about the country’s widening budget deficit

Reduction in Turkey’s GDP which has lead to the depreciation of the Turkish lira against the $U. S.

“ Turkey seeks bids for sugar factories. Turkey is selling six factories that produce sugar to finance the global slow down economy. Turkey also trying to reduce the government control in its economy. However this event will test turkey privatization[13].”

## Factors:-

## September 2009 Balance of Payment

Budget of the government: The current account deficit realized a huge increase by 60. 5% from 558 in August 2009 to 869 in September 2009. This reflects the increase on the country expenditures over revenues that negatively affected the TL exchange rate

“ The level of the country trade: The deficit of the goods and services increased by 18%, which is a mean of increase of TL supply over demand that is reflected negatively on the TL exchange rate, and put a pressure on the TL to depreciate against US Dollar.[14]“

US inflation decreased from -8. 90 in June to -9. 90 in September. Therefore US $ appreciated over the TL.

“ Turkey’s industrial production fell by 8. 6% in the year to September. The biggest decline was in the production of capital goods, the output of which fell by 18. 2%.[15]“

## 1 October to 15-October:-

During this period our graph direction went up due to the below factors and events

## Events:-

In October 2009 the annual meeting of the World Bank held in Istanbul, this was the fist time the meeting being held in a country other than the United State.

“ The country outlook rating of Turkey outlook has been upgraded by the two rating agencies Moody and Standard & Poors. In addition to that, there is a strong probability to upgrade Fitch rating agency of the Turkey outlook rating. This is due to Turkey’s policies in handling the financial crisis and its ability to implement policies to stabilize the economy.[16]“

## Factors:-

Inflation: the Central Bank of the Republic of Turkey decreased the inflation rate from 5. 27 in September to 5. 08 in October 2009. This is considered a positive indicator that leads investors to invest in TL, consequently, TL appreciated. We can observe that the Turkish Lira firmed in October than its performance in September against the US dollar and this was due to the fact that the central Bank of Turkey stated that the annual inflation in October would be low despite the end of stimulus tax cuts on durable goods and a near 10 percent hike in power prices.

## 16 October to 28 October:-

During this Period our graph has a downwards sloping due to the below factors and events.

## Factors:-

Interest rate: a Central Bank of Turkey lowered its interest rate from 7. 75 in September. To 6. 75 in October 2009. As a result the TL depreciated ay the beginning of October reflecting the expectations of the investors that the currency will have downward direction.

Budget: Finance minster of Turkey stated that Turkey end-2009 budget deficit of 62. 8 billion lira ($43. 1 billion) before a fall to 50. 1 billion lira in 2010 which affect TL negatively.

## 29 October to 8 November:

As the Graph show the TL lira appreciate in this period due to some factors and events.

## Events:-

As reported in Turkey newspaper four officials at the tax office were suited for damages caused by the record tax office the case was brought by the media group.

## Factors:-

Oil: the crude oil prices went up on November 2009 this is in indicator that investors shift their investment from dollars to oil leading dollars prices down, accordingly TL appreciated against US dollars.

US dollar: Federal Reserve on Wednesday 5th November offered a caution economic outlook and kept borrowing costs near zero as a result the US dollar depreciated and the TL appreciates.

The Turkish bank Turkey Ekonomi Bankasi have reach 47 % rise of profit which leads to upward TL sloping .

## 9-Novamber to 25 November

The graph illustrate that the TL has been depreciated in this period for those factors and events.

## Factors

Financial stability report: the CBRT has published the financial stability report, the report indicates that Turkey economy would notice a slow improvement, and in banks profitability levels in 2010 would decrease. According to the report the consumption levels is expected decline which will lead to lower the investment expenditures. This news has affected the public confidence in the economy of turkey and resulted in a decline of the TL exchange rate.

Unemployment rates: According the Hurriyet Turkish news paper unemployment rate problem would still grow and would not be solved anytime soon. This is also a negative indicator that TL value will decline.

US Gross Domestic Product: The third quarter economy statistics of the US have been published on 24 November 2009, it shows that the US GDP has increased at an annual rate of 2. 8%, this increase in US GDP is a result of the positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and residential fixed investment that were partly offset by a negative contribution from nonresidential fixed investment. As a result USD gained more confidence and rose against the TL.

## 26 November – to 30 November

As the graph shown in this period the TL has a downward slop which is the most negatively sloping at the analysis period of our project.

## Events:-

From 27 to 30 November Turkey government and business sector had a public holiday to observe the occasion of Eid Al Adha. The economy during this period slow down and this caused the downward of the TL exchange rate against the USD.

The global crisis has hit turkey trade especially turkey exports to neighborhoods decrease to 7. 7 % as publish in Hurriyet Daily News and Economic.

“ EU to ask Turkey to adopt a more European Iran policy The European Union welcomes Turkey’s stabilizing role in the Middle East but feels uneasy with its Iran policy,[17]“

## Factors

Oil: Oil price decreases on 25 of November which attract investor to buying oil by dollars as a result the TL depreciate.

Inflation: in November the turkey inflation rate increases from 5. 08 on October 2009 to 5. 53 in November which lead to depreciate the TL in this time.

Balance of trade: Turkey balance of trade increase from -2573. 0 to -3948. 0 deficits which mean that turkey import increase in November increasing the supply of TL which leads to downward TL.

## 1 December r to 4 December:-

As we observe after the deep down wards at the end of November the TL appreciate at the beginning of December leads to upwards slopping.

## Events:-

Turkish news has announced that Turkish lender Sekerbank has signed a deal loan with the international finance cooperation to finance the agriculture and foods project that worth 30 millions.

Turkey news has announced that turkey’s poverty rate has decreased from 17. 79 percent in 2007 to 17. 11 percent in 2008″which leads to strong Turkish lira reputation.

## Factors

Gold : the gold price increase from 1054. 00 on November to 1115. 40 on December as a result the investor shift their investment direction to invest more in safe assets which is gold leading to supply the market by dollars as result the dollars depreciate and the TL appreciate .

Government Budget: the Turkey government budget has 989. 80 surpluses on December after having a budget deficit for the past month. As a result the TL appreciated.

Current Account : the current has increase from -863. 0 on September to 671. 0 on December which mean the export is greater than import and the demand of TL is greater than supply leading appreciate TL on December 2009.

## Conclusion:-

In conclusion, we have benefitted a lot from this study as we were able to analyze the Turkish lira exchange rate against the U. S Dollar as both economies have many factors and events affecting this exchange rate phenomenon such as gold reserves, balance of payments of each country, unemployment rates in addition to inflation rates, crisis in other countries, as well as many other implications . Furthermore, As for the exchange rates instability during the past three months as was required for us to analyze, the Turkish-dollar exchange rates observed several highs and lows which was generally due to multiple political, economical, social factors, and fiscal monetary policies by both countries the U. S and Turkey. We benefitted a lot from conducting this research study as it gave us the knowledge of relating the international and national events with the currency performance along with understanding the role of the exchange rate system applied in analyzing the appreciation as well as depreciation of the currency.

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