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DEFINING THE RELATIONSHIP BETWEEN THE REAL EXCHANGE VOLATILITY AND FOREIGN DIRECT INVESTMENT IN TURKEY

Abstract:

In this research, the relationship between real exchange rate volatility and foreign direct investment (FDI) is examined in theoretically and empirically by covering 1998Q1-2015Q4 period for Turkey. In the empirical modelling, FDI is explained with economic growth, exchange volatility and trade openness parallel with the existing literature. Moreover exchange rate volatility variable is computed by employing GARCH type model. The Bound Test approach which is proposed by Peseran et al. (2001) is employed in order to investigate the cointegration relationship between the variables. After we found cointegration, we analysed long and short term coefficients by using ARDL model. According to model's results, growth and openness has positive and statistically significant effect on FDI, while volatility has negative effect on FDI as expected. However coefficient of volatility is statistically insignificant on FDI. Because of volatility coefficient is not statistically significiant, we can conclude that foreign investors take into consideration sustainable growth and openness for investing in Turkey instead of exchange rate volatility.

Keywords:

Exchange Rate Volatility, Domestic Investment, ARDL Model

JEL Classification: E44, F31, F21