
TURKISH TOURISM AND ECONOMY STRUGGLE DUE TO BOMBINGS, RUSSIA CHILL

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Suicide bombings in Istanbul, a row with the Kremlin and hard times for the Russian middle class - all these factors spell trouble for Turkey's tourist industry and its wider economy.

Nowhere is the mood gloomier than among shopkeepers in Istanbul, Turkey's cultural gem and scene last weekend of the second suicide attack on tourists in the city this year.

"There's zero business now," said one clerk at a clothing store near the medieval Galata Tower, a top destination for foreign visitors.

"Everyone is nervous," chimed in his friend a few hours after the attack - blamed by the government on Islamic State - which killed three Israelis and an Iranian in Istanbul's most popular shopping district.

Their feeling that business, already bad, can only get worse is understandable. In January, an Islamist militant blew himself up near the fabled Blue Mosque, killing 12 people from Germany - which traditionally accounts for the largest number of visitors to Turkey.

Economists forecast that tourism revenue will tumble by a quarter this year, costing the country around \$8 billion.

The risk is that better off tourists such as Germans will choose to take their holidays elsewhere while Russians, Turkish tourism's number two market, will be forced to stay away due to an economic crisis at home and political tensions following Turkey's shooting down of a Russian warplane in November.

Overall visitor numbers to Turkey fell a relatively modest 1.6 percent last year, according to Tourism Ministry data.

But the signs are not good before the May to October peak season, when Turkey usually earns around 70 percent of its tourism revenues.

BIG SPENDERS

Unfortunately for Turkey, tourists from the richest countries, who tend to be the biggest spenders, are also the most easily spooked by security worries.

"Security concerns have the biggest impact on high-income tourist groups, who are most likely to change their plans to visit," said Mehmet Besimoglu, an economist at Oyak Investment.

German travel group TUI has reported a 40 percent drop in summer bookings for holidays in Turkey and the picture for Britain, the number three market, is uncertain.

British holiday company Thomas Cook said more of its customers were opting to holiday in Spain, as well as the United States and Cuba. Fewer wanted to go to Turkey, it added.

Altogether Turkey has suffered four suicide bombings this year, bringing the death toll to more than 80. The other two, claimed by an offshoot of the Kurdistan Workers Party (PKK), struck the capital, Ankara, which relatively few tourists visit.

The violence is not new. Islamic State has also been blamed for bomb attacks last year that killed more than 130 people.

While these were in Ankara and near the Syrian border, the effect on tourism - which accounts for about 4.5 percent of the \$800 billion economy and provides more than one million jobs - has already been felt.

Last year, for instance, the number of Italians visiting Turkey decreased by 27 percent while Japanese dropped off by nearly 40 percent.

Now, economists say, the drop-off in tourism is so pronounced it could have a broad economic impact. They estimate an \$8 billion fall in revenue would knock more than half a percentage point off economic growth, which the government is targeting at 4.5 percent for this year.

With tourism accounting for more than half of Turkey's current account earnings last year, this would also spell trouble for the central bank's hopes that the deficit can be brought down from a yawning 4.5 percent of gross domestic product in 2015.

Some economists believe tourism could prove an even bigger drag on the economy. "If terrorist attacks continue and things get worse, the impact could be as high as one percentage point being deducted from economic growth," said Muammer Komurcuoglu, economist at Is Invest.

That would be unwelcome news for President Tayyip Erdogan and the ruling AK Party, which is keen to show the economy is on track despite the insecurity.

RUSSIAN CHILL

Prime Minister Ahmet Davutoglu has announced a plan to offer emergency support to the tourism sector, including a 255 million lira (\$87 million) grant and a facility to allow firms to restructure their debt. It is unclear whether that will help.

Turkey is no longer able to rely on Russians seeking sunshine and southern beaches as a back-up due to the combined effects of economics and politics.

Middle class Russians have been hit hard by an economic crisis caused by the weak price of oil, the country's main export earner, and Western sanctions imposed over the Ukraine crisis.

One result has been a dive in the Russian currency which has made foreign holidays, including in Turkey, much more expensive. Two years ago, Russians needed just over 15 roubles to buy a Turkish lira; now they need almost 24.

On top of that has come the chill in relations between Ankara and Moscow. President Vladimir Putin signed a series of punitive economic sanctions against Turkey, including a ban on charter flights, in retaliation for its shooting down of the Russian warplane near the border with Syria.

The biggest impact from the sanctions would be to tourism, the European Bank for Reconstruction and Development has said.

Numbers of Russian tourists declined by nearly a million last year, to 3.6 million. That could get even worse this year, said Ercan Erguzel, an economist at Morgan Stanley.

"Based on our talks with sector representatives, we have the impression that number of Russian tourists may even fall to below 1 million in 2016 in the most extreme scenario," he said.

Kaynak/Source: