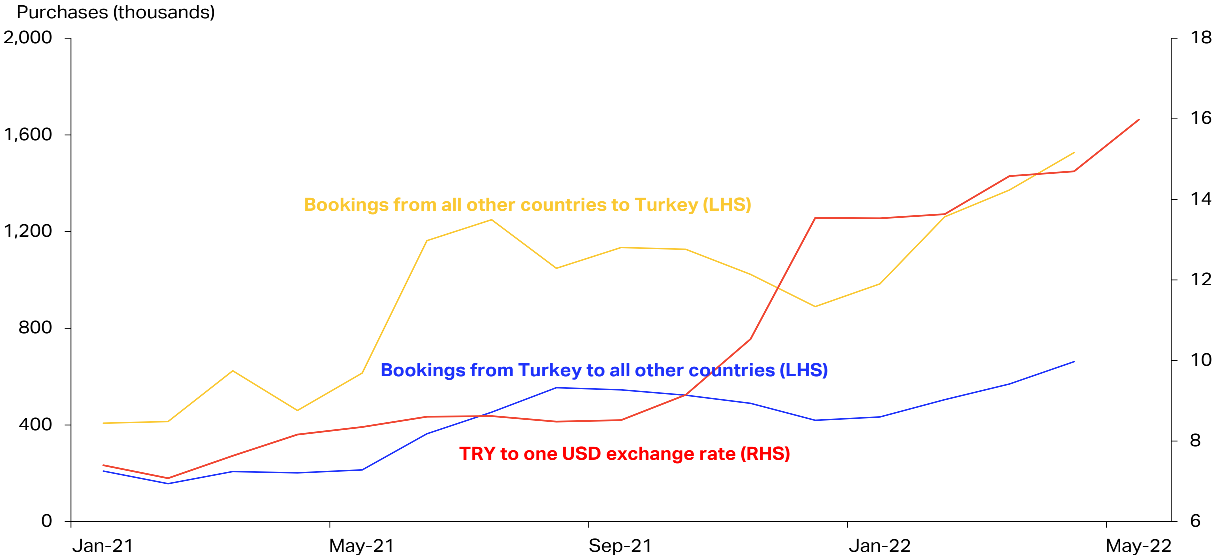
IATA Economics' Chart of the Week

20 May 2022

Turkey: How a cheaper currency can be good for inbound travel



Source: IATA Economics using DDS and Refinitiv Eikon

- Turkey is facing a deepening economic crisis, though the economy rebounded quickly from the 2020 pandemic GDP growth rate of 1.8%, gaining 11% in 2021. This performance was mainly driven by fiscal support, accommodative monetary policy, and a swift vaccination rollout, all of which boosted demand in the country. This year, soaring energy prices and monetary policy accommodation brought Turkey's inflation rate to a 20-year high of 70% in April 2022.
- The Turkish lira (TRY) weakened further to 15.9 per USD in May this year, edging closer to the all-time low of TRY 18.4/USD hit in December 2021. Authorities imposed reserve requirements, extended the tax exemption of corporations converting foreign currency to TRY, and hiked the foreign revenue ratio that exporters are required to sell from 25% to 40%. This, one is tempted to think, does not bode well for air transport in this market.
- However, bookings data shows that inbound travel has accelerated in 2022, very much in line with the lira's depreciation against the US dollar, as can be seen in the chart above, and this to a greater extent than outbound travel. Hence, in spite of the domestic economic crisis, the currency depreciation and associated rate of inflation are clearly supportive of Turkey as a tourist destination, making it relatively more competitive internationally. This will be a positive for Turkey's overall economic performance as well, since tourism represented as much as 11% of GDP and generated more than 2.6 million jobs in 2019.
- Moreover, even with charter flights and Russian airline operations not well captured by our data, the latest bookings data shows that both bookings to and from the country are now above 2019 levels. Top visiting countries include Germany, UK, Israel, and France. Flows from these countries recovered quickly in 2021 and show strong numbers for the first quarter of 2022. Inbound bookings represented 70% of total bookings in Q1 2022, and this share looks set to increase unless the currency changes course and starts to appreciate.

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