Relations between Tourist Arrivals and Exchange Rate: Evidence for Turkey

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Abstract

Associated with the increases in prosperity of countries and mobility opportunities, touristic activities become an important tool for sustainable development. These activities may be affected by exchange rate, economic growth, and general price movements. There may be also effects of tourism on these variables, i.e., tourism-induced growth and Dutch disease. Therefore, one may expect bidirectional relations between these variables. Fluctuations in general price level, exchange rate, tourist arrivals and tourism revenues may affect the economies through their effects on employment, growth, and government budget. There is large number of studies analyzing these fluctuations. This study aims to analyze the relations between tourist arrivals, economic growth, inflation, and exchange rate for Turkey taking country geopolitical risk as exogenous and using monthly data over 2012-2020 and VAR modelling approach. Both pairwise and VAR Granger causality tests show the validity of tourism-led growth hypothesis and bidirectional causal relation between inflation and exchange rate fluctuations. Impulse-response graphs indicate temporary effects of inflationary shocks to economic growth and exchange rate fluctuations as well as transitory impacts of exchange rate and growth shocks to inflation. Results do not show any evidence of Dutch disease-effect of exchange rate on tourist arrivals and also any causal relations between them. The improvement in quality of tourism services are important for revenue increase and thus, economic growth.

Keywords: Tourist arrivals, Exchange rate, Tourism-led Economic Growth

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