
The effect of global economic crisis on Turkish tourism demand and a review for the period 2003-2013

Kudret Gul¹, Nuran Aksit Asik¹, Ali Kemal Gurbuz²

¹Department of Tourism and Hotel Management, Balıkesir Vocational School, Balıkesir University, Balıkesir, Turkey

²Department of Recreational Management, Tourism Faculty, Balıkesir University, Balıkesir, Turkey

Email address:

kgul@balikesir.edu.tr (K. Gul)

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Abstract: Turkish tourism has developed as more dependent on the international tourism demand until the 2000s. However, it has gained more stable and more balanced structure with the effect of increase in demand of domestic tourism in the early 21st century. In recent years, despite of the global crisis, the growth rate of the domestic and international tourism expenditure is well above the growth rate of the economy in Turkey. In this study, the effect of the global crisis on Turkish tourism demand has been investigated. The study has focused on factors such as "inflation", "currency" and "interest rates", which may affect Turkish tourism during the global financial crisis. In this way, the effects of the crisis on tourism demand are explained more clearly. The results show occurrence of a significant slowdown in the Turkish foreign active tourism during the global crisis. This deceleration was independent of the inflation and exchange rate effect. Furthermore, it was merely caused by the global crisis. Though, the domestic and overseas travels were increased in Turkey despite of the crisis during the period 2008-2013. Decreasing interest rates played a major role in this increase. Thus, the effect of interest rate on tourist spending can be accepted as a strong influential factor. The study has two important aspects. First, the contractionary effects of the global crisis on the tourism demand are to be determined by taking into account the possible effects of economic variables such as currency, inflation, interest rates, etc. Secondly, this study has a visionary approach, which is an evaluation of the global economic crisis as an opportunity. Besides, it also indicated the effect of the specified variables on tourism demand.

Keywords: Tourism Demand, Crisis, Growth, Interest, Inflation and Currency

1. Introduction

The global crisis has led to a global slowdown of the growth, which is also manifested in Turkey's economy. In this study, the effect of slowdown in Turkey's economy on foreign active tourism, foreign passive tourism and domestic tourism was investigated with reference to the global crisis.

In this context, the effects of variables such as "interest rates", "exchange rate" and "inflation" on foreign active tourism demand, external passive tourism demand and domestic tourism demand were examined. Thus, we tried to develop different perspectives about the effects of these variables on the tourism demand. Comparisons were made regarding the pre-crisis and crisis periods in order to determine the effects of related variables. Finally, research findings were linked with the causes of the global crisis mentioned elsewhere in the literature.

It is difficult to measure the impact of the crisis on the

tourism demand without taking into account the mentioned variables. Because they are the main indicators of tourism demand, though they may or may not be effective during the crisis.

On the other hand, our study facilitates an understanding of the impact of these variables on tourism demand in normal conditions. As we will see, despite of global crisis, a slowdown in the some elements, which affect tourism demand, shows that some economic variables are more effective on tourism demand.

In the following sections, the study explores the literature to detect the effects of the global crisis on tourism demand. A comparison of the findings of this study with the others will justify the importance of this study. Obviously, there are many things written about the impact of crisis on tourism. We have stated only the most typical examples among various similar views.

In this study, in order to determine the effect of the

variables on tourism demand, changes in the variables related to the statistical data were calculated for the pre-crisis and crisis periods, and then correlation analysis was performed for the same data. The results obtained by the correlation analysis were associated with the trends. Finally, the data obtained by applying the two methods were compared with the literature. The main aim of the study was to determine the existing situation with a descriptive method.

2. Literature Review

There is no universally accepted definition of what constitutes a crisis. However, according to Henderson (2006) a crisis includes unexpectedness, urgency and danger. Keown and McMullan (1997) define the crisis as a triggering event causing significant change or having the potential to cause significant change, the perceived inability to cope with this change and a threat to the existence of organisations.

The earlier published studies have mainly examined the impact of crisis on tourism movements and income (Meng et al. 2010; Smeral, 2009; Naudé, 2009; Kouame and Reyes, 2011; Borza, 2010; Song and Lin, 2010; Ritchie, Molinar and Frechtling, 2010; Petrevska, 2012; Enz, Kosova and Lomanno, 2011; Kapiki, 2011; Drutu, 2011; Weiss et al., 2013). The literature about the effect of inflation, currency and interest rates on tourism demand under the global economic crisis in the tourism industry is too limited. But, inflation, interest rates and growth are the most important factors affecting the consumption (BRSA Financial Market Report-2012; Asia Pasific, 2004:6).

The growth rate of the world tourism was 3.59% per year during 2000–2012. On the other hand, the annual growth rate was 3.99% until 2008 before the onset of the global crisis, and it was 2.79% during 2008–2012. A similar trend can also be observed in the world tourism spending. The global tourism revenue increase was 8.92% per year during 2000–2008, whilst it was 3.48% per year after 2008 (Comcec, 2014:6). These data clearly show the decelerating effect of the global crisis on the world tourism industry.

The current financial crisis that began in 2007 has created a great financial disorder since the Great Depression of the 1930s (Melvin and Taylor, 2009). The 2008-2009 global economic crisis severely impacted the international tourist movement and led to contraction in demand after the second half of 2008. The decline was 4% in the international tourist arrivals and 6% in the international tourism revenue in 2009 (TC Kalkinma Bakanligi, 10. Kalkinma Raporu; Turizm: 2014). Fayos-Solá, E. (2008) indicated that the tourism market will have impact of the crisis for 3-4 years after its onset. In fact, the first public reactions to the financial crisis were highlighted by the severe lack of money and financial blockages, a quick orientation towards saving, reduction of spending and change in the consumption priorities based on new criteria.

The household consumption data play an important role in

monitoring trends in the tourism demand. The surveys are conducted on household consumption expenditure by Turkey Statistical Institute to produce data about the consumption habits of consumers, disposable income of households and income distribution among individuals¹. These data provide important clues about the change in tourist expenditures, which are directly or indirectly related with touristic consumptive items. In accordance with the distribution of consumption expenditure of households in the past five years in Turkey, the average spending associated with tourist consumption is increased by 1.3% and mandatory consumption expenditures is decreased by (-)1.7% (Gul, 2014:232).

The tourism industry is one of the most sensitive, susceptible and vulnerable industries to crisis (Santana, 2004). It is strongly affected by crisis events resulting in negative tourist perceptions (Pforr & Hosie, 2009). Thus, the effect of crisis on tourism industry varies depending on environmental, economical and political change in a country (Beeton, 2001; Hoti, McAler and Shareef, 2005). During an economic recession, fluctuating exchange rates and interest rates, loss of market confidence and withdrawal of investment funds can all create a tourism crisis (Henderson, 2006).

The global financial crisis affected the tourism industry by declining sales, reducing tourist consumption and limiting tourism expenditure (Hociung and Francu, 2012) and also changed travel habits, such as the decrease of long-haul travel in favour of short-distance travel, including intra-regional and domestic travel (pub.unwto.org: 6)². The crisis also resulted in change and cancellation in the travel plans of touristic consumers, by significantly reducing their travel budgets. Accompanied by a high oil price and rising inflation rates, fear of recession further cut down toll and travel budgets. This constricted international demand of tourism services (www.ilo.org: 6)³.

The crisis resulted not only in fewer customers in hotels, restaurants, conference and convention centres, etc., but also in a significant decline in the average expenditure per guest (Pizam, 2009). Besides, according to Borza (2010) the propagation of the financial crisis in many countries elevated the effect of crisis in the world tourism market.

There are many articles about the effects of the global crisis on the tourism industry in the literature, summarised as above. Although, the presented study is similar to them in some perspectives, but still it offers a different point of view in terms of methods and analyses used.

3. Tourism Demand Trends in Turkey

At the end of 2013, the number of tourists visiting Turkey was 39.2 million and tourism revenues were \$ 32.3 billion. On the other hand, the number of Turkish citizens who travelled abroad was 7.5 million, while their spending was \$ 5.2 billion in 2013 (TurkStat News Bulletin, January 2014).

Table 1. Domestic and International Tourism Income-Expenditure in Turkey, 2003-2013

Year	Number of Foreign Visitors	Δ (%)	Int. Tourism Income (Million\$)	Δ (%)	Travels Abroad	Δ (%)	Int. Tourism Expend. (Million\$)	Δ (%)	Num of Dom. Travel (1000)	Δ (%)	Dom. Tourism Expend. (MillionTL)	Δ (%)
2003	16 302 053	-	13 854	-	3 414 844	-	2 424	-	-	-	-	-
2004	20 262 640	24,3	17 076	23,2	3 844 494	12,5	2 954	21,8	-	-	-	-
2005	24 124 501	19,0	20 322	19,0	4 124 829	7,2	3 394	14,8	-	-	-	-
2006	23 148 669	-4,0	18 593	-8,5	4 063 180	-1,4	3 270	-3,6	-	-	-	-
2007	27 214 988	17,5	20 942	12,6	4 956 069	21,9	4 043	23,6	-	-	-	-
2008	30 979 979	13,8	25 415	21,3	4 892 717	-1,2	4 266	5,5	-	-	-	-
2009	32 006 149	3,3	25 064	-1,3	5 561 355	13,6	5 090	19,3	60 888	-	12 216	-
2010	33 027 943	3,1	24 930	-0,5	6 557 233	17,9	5 874	15,4	68 373	12,2	13 843	13,3
2011	36 151 328	9,4	28 115	12,7	6 281 972	-4,1	5 531	-5,8	65 854	-3,6	15 641	12,9
2012	36 776 645	1,7	29 351	4,3	5 802 950	-7,6	4 593	-16,9	64 922	-1,4	16 725	6,9
2013	39 226 226	6,6	32 310	10,0	7 525 869	29,6	5 253	14,3	68 452	5,4	18 416	9,1
Annual Δ (%)*		9,18		8,84		8,22		8,04		2,97		10,81

Source: Turk Stat

* Annual $\Delta\% = (\sqrt[n]{x/y} - 1)100$, where n: years; x: the value belonging to the last year; y: the value belonging to the first year

The number of visitors coming to Turkey has increased annually 9.18% in the last 10 years. In the same period, the rate of increase in international tourism income was 8.84%. These data indicate that the rate of increase in international tourism revenue has remained lower than 0.34% from the rate of increase in the number of visitors. On the other hand, the increased rate of abroad travels from Turkey was 8.22% and the annual increase in foreign tourism expenditure ratio was 8.04% in the last ten years. It can also be observed in Table 1 that there is a significant increase in both domestic and international tourism revenues and expenses with the exception of some years in the past ten years. These growth rates were quite high compared with the growth rate in world GDP that was 2.7% (World Development Indicators, 2013) and 4% in Turkey's economy (Ekinci, 2013:84) during 2000-2011.

The data also show that despite the reduction in overseas spending in some years, the upward trend continued in international tourism demand and tourism spending. The annual increase rate in number of the domestic travels was 2.97% in the last five years. In contrast, the annual increase in domestic tourism spending was 10.81% in the same period. These results show that citizens travelling abroad spent out much more than the growth rate of Turkish economy.

In 2013, for domestic tourism, a total of 68,452,000 citizens travelled and they spent 18,416 million TL. Of these 1,274 million TL was spent on tour package, while 17,142 million TL was spent as individual expenses (TurkStat News Bulletin, May 2014).

As indicated above, a significant increase has been observed in both overseas and domestic travel expenses in Turkey in recent years. To explicate this study, the issue should be evaluated along with other variables such as growth, interest, currency and inflation in Turkey, and there would be a need to take on some additional comments, which would come up by comparison of pre-crisis and crisis periods. The following sections address these points.

3.1. The Effect of Crisis on Turkish Foreign Active Tourism

The increase in the number of foreign visitors coming to Turkey was 13.7% per year before the global crisis (2003-2008), which was only 4.83% per year after the crisis (2008-2013). This fact is a strong evidence to manifest the effect of the crisis on international tourism demand in Turkey. But it is also important to understand how and what mechanisms are involved in this scenario.

If increase in the rate of foreign exchange remains below the inflation rate in a country, it discourages exports and foreign active tourism. While average inflation was 10.58% in the period 2003-2008 in Turkey, the annual exchange rate of the dollar decreased by (-) 2.83% per year. Thus, we need to focus on the pre-crisis period.

There are no published data for the average room rates in Turkey, in terms of dollar. But we think that hotels would not increase dollar-denominated room rates from year to year—accommodation concept constant—depending on inflation in the country. First of all, international competition prevents it. The room price is same for foreign tourists despite of inflation in the country. However, inflation leads to increase in the tourist spending outside the hotel in dollar terms. In other words, if tourists spend outside the hotel in a great proportion, and inflation is higher than the exchange rate increase, then making holiday in Turkey would be very expensive. Despite of this trend, the international arrivals were increased annually by 13.7% during 2003-2008 in Turkey. Tourism revenues in dollar terms were also increased to 12.9% per year in the same period, which was in concordance with the number of arrivals. On the other hand, average increase in the currency exchange rate was (-) 2.83. During the global crisis, annual increase in foreign visitors dramatically decreased to 4.83%, despite of increase in currency exchange rate (8.01%). In addition, international tourism income decreased to 4.91%. These findings indicate that there is a significant decrease in international tourism

income and foreign visitors during the global crisis.

One of the interesting issues about the Turkish hotel industry, during this period, is that how it dealt with these difficult conditions. As the cost rise depending on inflation is an important issue for hotels despite the decreasing exchange rate. Profits might also have decreased during this period. However, despite decreasing overall profits, profits of the hotels might still be positive. There is another explanation

that is association of the all-inclusive system popular in Turkey since 2000. Uner, Sokmen and Birkan (2006:48) argue that this system increases occupancy and room rates in the hotels, thereby, increase profitability. The all-inclusive system does not bring a solution to the problem of rising cost of the hotels. But it reduces outside spending of the tourists (Ungoren, Algur and Dogan, 2009:111). Thus, it prevents reduction in demand of foreign tourists due to inflation.

Table 2. Turkish Foreign Active Tourism Demand before the Year 2008

Year	Number of Foreign Visitors	Δ (%)	Int. Tourism Income (Million\$)	Δ (%)	Currency Exchange Rate (\$/TL)	Δ (%)
2003	16 302 053	-	13 854	-	1,493	-
2004	20 262 640	24,3	17 076	23,2	1,422	-4,75
2005	24 124 501	19,0	20 322	19,0	1,341	-5,69
2006	23 148 669	-4,0	18 593	-8,5	1,431	6,71
2007	27 214 988	17,5	20 942	12,6	1,302	-9,01
2008	30 979 979	13,8	25 415	21,3	1,293	-0,69
Annual Δ (%)		13,7		12,9		(-),2,83

Source: Turk Stat, CBRT.

Table 3. Turkish Foreign Active Tourism Demand after the Year 2008

Year	Number of Foreign Visitors	Δ (%)	Int. Tourism Income (Million\$)	Δ (%)	Currency Exchange Rate (\$/TL)	Δ (%)
2008	30 979 979	-	25 415	-	1,293	-
2009	32 006 149	3,3	25 064	-1,3	1,547	19,64
2010	33 027 943	3,1	24 930	-0,5	1,500	3,03
2011	36 151 328	9,4	28 115	12,7	1,670	11,33
2012	36 776 645	1,7	29 351	4,3	1,793	7,36
2013	39 226 226	6,6	32 310	10,0	1,901	6,02
Annual Δ (%)		4,83		4,91		8,01

Source: TurkStat, CBRT.

Inflation continued after 2008 in Turkey and then, the average annual inflation rate was 7.38% during 2008-2013. During this period, the increase in the exchange rate was 8.01%. Due to the exchange rate increase, this period was a relief time for the hotels to balance the difference between their costs and revenues. Moreover, there was no need to increase the room rates in term of dollars during this period.

Subjected to the terms of the tourists, if exchange rate of currency is higher than the increase rate of inflation; it can be considered that tourists spending outside the hotel may not lead to an increase in expenses in dollar-denominated. However, during this period, the average annual increase in the number of tourist arrivals did not reach to the value of the previous period that was 13.7%. Furthermore, we see a significant slowdown during this period (4.83% per year). Tourist spending also showed a similar trend (4.91% annually) in terms of dollars. These findings indicate that the impact of the global crisis can be perceived clearly in the declining trend in the number of foreign visitors and tourism revenues in the foreign active tourism during the crisis.

For the non-active tourism, there is no need to undertake

more detailed numerical analysis in the study. Because, outcome of the data, shown in above table, does not need a validation through the numerical analysis. Another reason, for that we see the data as sufficient in terms of interpretation in the table, is that there are a few variables that can influence the demand. It is difficult to establish a significant relationship between foreign active tourism demand and the variables such as domestic inflation, domestic growth rate and domestic interest rate. Hotel prices are determined by the dollar value and global competition. However, it is reasonable to apply the numerical analysis when a large number of the variables affect a single variable. This approach has been applied below for the evaluation of external passive tourism and domestic tourism.

3.2. The Effect of Crisis on Turkish Foreign Passive Tourism

Table 4 shows the data associated with external passive tourism demand before 2008, while Table 5 shows the data after 2008. In parallel, Table 6 shows the results of correlation analysis for the pre-2008 and Table 7 shows the

results of correlation analysis after 2008.

In order to determine the relationship between the variables, correlation analysis was used. If we use causality, the research findings would be in a narrow frame. Thus, we think that interpreting these types of variables requires a broad perspective in order to catch moving variables together. Similar considerations are also relevant in the following section: "evaluation of internal tourism".

In order to examine the relationships among the variables such as real interest, currency, growth, foreign passive tourism and local tourism, Pearson's correlation coefficients were calculated. The correlation coefficient takes a value between -1 and 1. The values close to "0" point towards the low correlation and those close to "1" towards high

correlation. The values higher than 0.70 are considered as powerful, the values between 0.70 to 0.30 as medium, and a value less than 0.30 as a poor relation (Demir, 2012: 72).

Turkey's economy grew by an average of 5.9% per annum during the period 2003-2008 before the global crisis. During this period, the rate of departures abroad increased 7.46%, while expenses increased by 8.79% per year on the basis of TL. During the economic growth, the increase in outgoing travel and spending was as expected. However, we could not find any significant relationship between the growth rate and outgoing travel and spending in the correlation analysis (as seen in Table 6). (Since the growth rate is a percentage value, the correlation between the annual change of these variables and the growth rate was investigated).

Table 4. Turkish Foreign Passive Tourism Demand before the Year 2008

Year	Travels Abroad	Δ (%)	Int. Tourism Expend. (Million\$)	Δ (%)	Int. Tourism Expend. (MillionTL)	Δ (%)	Growth GDP (%)	Inflation CPI (%)	Interest Rate (1 Year)	Δ (%)	Real Interest (%)
2003	3 414 844	-	2 424	-	3 619	-	5.3	18.36	32.64	-	14.28
2004	3 844 494	12.5	2 954	21.8	4 201	16.08	9.4	9.32	22.31	-318	12.99
2005	4 124 829	7.2	3 394	14.8	4 551	8.33	8.4	7.72	16.57	-25.7	8.85
2006	4 063 180	-1.4	3 270	-3.6	4 679	2.81	6.9	9.65	16.99	2.5	7.34
2007	4 956 069	21.9	4 043	23.6	5 264	12.5	4.7	8.39	17.15	0.9	8.76
2008	4 892 717	-1.2	4 266	5.5	5 516	4.79	0.7	10.06	19.12	11.5	9.06
Ann. Δ (%) and Ave.		7,46		11.97		8.79	5.9	10.58	18.42		9.4

Source: TurkStat, CBRT

Table 5. Turkish Foreign Passive Tourism Demand after the Year 2008

Year	Travels Abroad	Δ (%)	Int. Tourism Expend. (Million\$)	Δ (%)	Int. Tourism Expend. (MillionTL)	Δ (%)	Growth GDP (%)	Inflation CPI (%)	Interest Rate (1 Year)	Δ (%)	Real Interest (%)
2008	4 892 717	-1.2	4 266	5.5	5 516	-	0.7	10.06	19.12	-	9,06
2009	5 561 355	13.6	5 090	19.3	7 874	42.7	-4.8	6.53	10.31	-46.1	3,78
2010	6 557 233	17.9	5 874	15.4	8 811	11.9	9.2	6.40	8.97	-13.0	2,57
2011	6 281 972	-4.1	5 531	-5.8	9 237	4.83	8.8	10.45	10.05	12.0	-0,4
2012	5 802 950	-7.6	4 593	-16.9	8 235	-10.85	2.1	6.16	8.57	-14.7	2,41
2013	7 525 869	29.6	5 253	14.3	9 986	21.26	4.1	7.40	9.21	7.5	1,81
Ann. Δ (%) and Ave.		8,99		4.25		12.6	3.88	7.38	9.42		2.034

Source: TurkStat, CBRT

Table 6. Correlation Analysis for Turkish Foreign Passive Tourism Demand before the Year 2008

		Expenditure (\$)	Outgoing	Expenditure (TL)
Real interest	Pearson Correlation	-0.720	-0.693	-0.764
	Sig. (2-tailed)	0.107	0.143	0.077
Expenditure (\$)	Pearson Correlation		0.986**	0.992**
	Sig. (2-tailed)		0.000	0.00
Currency	Pearson Correlation	-0.951**	-0.937**	-0.909*
	Sig. (2-tailed)	0.004	0.006	0.012
Outgoing	Pearson Correlation	0.986**		0.976**
	Sig. (2-tailed)	0.000		0.001
Growth	Pearson Correlation	0.286	0.262	0.459
	Sig. (2-tailed)	0.640	0.671	0.436

* Correlation is significant at 0.05 (5%) level (2-tailed).

** Correlation is significant at 0.01 (1%) level (2-tailed).

*** In correlations between the growth and other variables, growth figures were compared with the values of percentage change rather than absolute values.

Table 7. Correlation Analysis for Turkish Foreign Passive Tourism Demand after the Year 2008

		Expenditure (\$)	Outgoing	Expenditure (TL)
Real interest	Pearson Correlation	-0.715	-0.699	-0.918**
	Sig. (2-tailed)	0.111	0.122	0.010
Expenditure (\$)	Pearson Correlation		0.674	0.746
	Sig. (2-tailed)		0.142	0.089
Currency	Pearson Correlation	-0.243	-0.746	-0.825*
	Sig. (2-tailed)	0.642	0.089	0.043
Outgoing	Pearson Correlation	0.674		0.917**
	Sig. (2-tailed)	0.142		0.010
Growth	Pearson Correlation	-0.224	-0.064	-0.570
	Sig. (2-tailed)	0.717	0.918	0.316

* Correlation is significant at the (5%) level (2-tailed).

** Correlation is significant at the (1%) level (2-tailed).

*** In correlations between the growth and the other variables, growth figures were compared with the values of percentage change rather than the absolute values. Achieving significantly lower correlation coefficient by using this method increased the reliability of the results.

Although the average annual inflation was 10.58%, the average annual dollar rate was reduced by (-) 2.83% in this period. In this case, travelling abroad became quite attractive for Turkish citizens. For going abroad and the increase in spending, it may be argued that falling currency and high inflation have been effective for higher increase in travelling abroad and expenditure than the increase in economic growth in this period. Indeed, a significant relationship between change in these variables and the dollar rate was observed in the correlation analysis. A significant correlation was also observed between dollar and TL denominated spending. This was consistent with result of Table 2 that the dollar exchange rate did not show the same trend line with inflation in this period (Correlation coefficient was 99.2%. If the dollar rate could have been constant, the coefficient would have been 1).

The effect of exchange rate on travelling abroad and expenses should be considered together with the domestic inflation rate. According to Damar (2010), inflation targeting and structural change in the Turkish economy have significantly weakened the role of the exchange rate, and this effect may be enhanced by foreign passive tourism demand. But, a significant correlation between exchange rate and these variables require a more complicated analysis. Indeed, a correlation analysis in dealing with inflation rate does not alter the result anymore. For example, let's say price index was 1000 for overseas in 2003. The overseas price decrease can be calculated in real terms by minimising currency exchange rate from inflation rate for Turkish citizens who travel abroad. Accordingly, overseas prices would be as follow; 1000-860-744.67-722.78-597-532.84 during 2003-2008. Respectively, TL denominated expenses; 3619-4201-4551-4679-5264-5516 in the same period. According to these data, the correlation is significant at 0.01 significance level ($r = (-) 99.8\%$).

When calculating correlation between the dollar exchange rate and TL-denominated expenses, TL- denominated expenses were used without considering adjustment for domestic inflation in the study. Thus, the impact of currency on tourist expenditure could be determined more easily.

A significant correlation was found between the growth rate and outgoing tourism demand as mentioned above. The currency exchange rate and economic growth rate affect the

external passive tourism demand, but these two separate variables have no direct relationship with each other. Therefore, if travelling abroad or overseas, the outgoing tourist expenditure has high correlation with one of these variables; the possibility of having high correlation with other variables is very low. Moreover, the currency rate has an important role while comparing change in exchange rate and inflation. It can be argued that adjusting overseas outgoing tourist spending from inflation can hide (or mask) the effect of the economic growth depending on the technical aspects.

Real interest rates showed a decreasing trend before the crisis period in Turkey (Table 4). According to the literature, decline in the interest rate increases investment and consumption expenditures in the economy. Monetary interest rates declined from 32.64% to 19.12% in this period. This rapid decline in the interest rates led to decrease in the real interest rate (Real interest rate = monetary interest rate – inflation rate). Thus, the falling real interest rates should increase outgoing tourist spending and overseas travels. Although in this approach, we could not find a significant relationship between the real interest rate and these variables in the correlation analysis. However, it is possible to make a similar comment as previously made about the currency and the growth rate. In other words, high currency impact rate might have hidden the effect of the interest rate in this period; even real interest rate would have had an impact on the external passive tourism demand.

Global crisis has also affected the Turkish economy after the year 2008. Turkey's economy grew at an annual average rate of 5.9% in the pre-crisis period, while it was 3.88% in the crisis period. However, the increase in spending in TL terms and average annual rate of increase in travelling abroad are higher than the pre-crisis period. As evident from Table 5, travelling abroad increased by 8.99% per year and outgoing spending increased by 12.6% per year in TL terms. Moreover, these results were achieved despite the increase in the exchange rate by 8.01% per year and average annual increase in inflation rate by 7.38%.

The average annual increase in spending dollar terms (4.25%) was much lower than the average annual increase in spending TL terms (12.6%). Considering the change in the

exchange rate in this period, TL denominated spending should be taken into account rather than dollar denominated spending while measuring the foreign tourism demand of Turkish citizens. The main reason behind small increase in spending in dollar terms is nothing than foreign exchange rate changes. As shown in Table 7, it is an indication of the fact that a significant correlation between dollar exchange rate and spending in TL terms, lack of significant correlation between travels abroad and dollar denominated spending, and a significant correlation between travels abroad and spending in TL terms exist.

What could be the cause of the high rise in external tourism demand in the crisis period compared with before the global crisis? As seen in Table 7, there is a significant correlation between real interest rates and TL denominated spending, but not between travelling abroad and the real interest rate. We believe that increase in the tourist spending represent tourism demand rather than number of tourist. For example, even though the numbers of tourist is the same, increasing length of stay per person or increasing the amount of expenditure per person can bring together a spending increase. Such trends may lead to an increase in demand. According to this approach, it can be said that declining real interest might have played an important role in increasing external tourism demand during this period.

During this period, there is a weak and non-significant correlation between external passive tourism demand and growth rate (Table 7). A similar interpretation would be appropriate in this case as in the pre-crisis period. The dominant effect of the interest rate may be overshadowed by the effect of growth rate. In this case, it is a fairly normal state that there is a non-significant correlation between growth rate and tourism demand.

There was a rapid decline in the real interest rates in this period comparing with the previous one. These issues are outstanding and reflect the most obvious difference between the pre-crisis and crisis periods.

In this case, tourist spending is very sensitive for the interest rate. In addition, it is compatible with the fundamentals of traditional macroeconomics. Interest rate is often effective on consumption (the degree and mechanism remains controversial). However, according to our opinion, the interest rate is particularly more effective on tourism spending and these results may be taken into account as clue for the approach.

In touristic need, there is equilibrium to the extent that physical, social, and psychological needs are met. These needs are assumed to be goal-directed, and aimed to be satisfied (Kay, 2003:604), though it is not a priority for consumption (Borza, 2010). Accordingly, it is not a mandatory need and does not lie at the top of the hierarchy of needs (Burkart and Medlik, 1981:57). If one's income is more than basic requirements, then he/she considers going for holidays. According to Gul (2008:114), tourism demand depends on the existence of disposable income and sufficient purchasing power. If money is a vehicle for accumulating extra income (depositing agents) and as Keynes noted, "a

prize abandons liquidity" (Parasiz, 1993:147-150), the interest rates fall. It can be inferred that the interest shows the first and the most important effect on the tourist expenditure.

3.3. *The Effect of Crisis on Turkish Domestic Tourism*

Theoretically, the relationship between domestic tourism movement and exchange rate can be established with room rates imposed by accommodation establishments. These enterprises cannot increase room rates due to the competitive environment in the world, although increase in exchange rate (in dollar terms) could be lower than increase in inflation rates.

There should be the same price for both local and foreign tourists under normal circumstances in a commercial life in accordance of the principle "the same price for the same product to every customer". In this case, if the inflation is lower than foreign exchange rates, touristic products are actually cheaper for domestic tourists in the country.

According to TurkStat household survey data (TurkStat News Bulletin, May 2014), as of the end of 2013, individual spending is 93% and package tour spending is only 7% of the total expenditure in the domestic tourism. But, in the foreign active tourism, while individual spending is 76.9%, package tour spending is 23.1% of the total expenditures (TurkStat News Bulletin, January 2014). Thus, coming through tour operators is more common among foreign tourists compared with domestic tourists in Turkey. For this reason, tourism businesses apply price discrimination for foreign and domestic tourists (usually higher prices for domestic tourists). However, the prices offered to domestic and foreign tourists are not completely independent from each other. Although the reasons are not being argued here, the lower price offered to foreign tourists can prevent the rise of prices offered to domestic tourists and act as a sort of reference. Nonetheless, the price discrimination between domestic and foreign tourists is a common practice in Turkey. Therefore, it is more appropriate to exclude the "dollar" variable in the analysis of this section.

It is difficult to establish a relationship between domestic tourism demand and inflation. An increase in the general level of prices usually increases individual monetary income in an economy. Therefore, in our analysis, it is assumed that inflation does not affect the real incomes.

The data are not available for domestic tourism demand before crisis period. Table 8 shows that the average annual increase in the number of domestic visitors (2.97% per year) was lower than the annual economic growth rate during the crisis period (3.88%). But increase in the TL-denominated domestic expenses (10.81%) was well above the economic growth in this period. In this case, which figure should be taken into account? If increase in the number of the visitors is higher than the increase in the expenditures, "expenditure" data may provide a more concrete evaluation. Because, increase in spending can be a result of an increase in the average length of the stay. Even if the number of the visitors does not change, the average length of the stay may increase spending.

Table 8. Turkish Domestic Tourism Demand

Year	Num of Dom. Travels (1000)	Δ (%)	Dom. Tourism Expend. (MillionTL)	Δ (%)	Growth GDP (%)	Inflation CPI (%)	Interest Rate (1 Year)	Δ (%)	Real Interest (%)	Spending adjusted for inf.	Δ (%)
2009	60 888	-	12 216	-	-4.8	6.53	10.31	-46.1	3.78	12 216	
2010	68 373	12.2	13 843	13.3	9.2	6.40	8.97	-13.0	2.57	13 010	
2011	65 854	-3.6	15 641	12.9	8.8	10.45	10.05	12.0	-0.4	14 161	
2012	64 922	-1.4	16 725	6.9	2.1	6.16	8.57	-14.7	2.41	15 755	
2013	68 452	5.4	18 416	9.1	4.1	7.40	9.21	7.5	1.81	17 147	
Ann. Δ (%) and Av.		2.97		10.81	3.88	7.38	9.42		2.034		8.85

Source: TurkStat, CBRT.

Increase in the number of visitors as well as more spending made by the same number of the visitors can be characterised as an increased tourism demand. An increase in the number of people increases the total expenditure. An increase in the average length of stay also increases the total expenditure. Then, the concept of "spending" should be considered more rational for demand measure. Accordingly, during the crisis, increase in the domestic tourism demand was higher than the growth rate of the economy.

When we consider only domestic tourism spending excluding inflation, the average annual spending rise is 8.85%. This rate was still well above than the average annual growth rate of the economy during the crisis period.

In this study, considering the difference between number of domestic travels and the domestic tourism expenditure, we excluded number of the travellers and focussed on spending. As seen in Table 9, there is a highly significant correlation

between growth and monetary spending (not adjusted for inflation). In fact, there is an interesting situation. The growth rates announced by the authorities are real terms (adjusted for inflation) in the economy. It is an interesting coincidence, when a monetary variable exhibits a high correlation with the real variables. But there may also be a high significant correlation between monetary expenditures and real expenditures (relatively stable inflation rate depending on years coming to mind as a reason). Indeed, it is exactly observed in Table 9. In this case, a significant correlation between growth rate and the real expenditure is expected. But, the result was different (sig2-tailed = 0.175). The correlation coefficient between growth and the real expenditure can be considered high (82.7%). Though, it cannot be said to be significant.

The results of correlation analysis about domestic tourism are shown in Table 9.

Table 9. Correlation Analysis for Turkish Domestic Tourism Demand after the Year 2009.

		Number of Domestic Travels	Expenditure (TL)	Expenditure (TL) (Adjusted for inflation)
Real interest	Pearson's Correlation	-0.433	-0.481	-0.331
	Sig. (2-tailed)	0.467	0.413	0.587
Growth	Pearson's Correlation	0.331	0.998**	0.827
	Sig. (2-tailed)	0.687	0.002	0.173
Number of Domestic Travels	Pearson's Correlation		0.614	0.532
	Sig. (2-tailed)		0.270	0.356
Expenditure (TL)	Pearson's Correlation	0.614		0.984**
	Sig. (2-tailed)	0.270		0.002

*. Correlation is significant at the (5%) level (2-tailed).

**. Correlation is significant at (5%) level (2-tailed).

*** In correlations between the growth and the other variables, growth figures were compared with the values of percentage change rather than absolute values.

The relationship between growth rate and real expenditures was strong. First, as noted above and shown in Table 9, a highly significant correlation coefficient (close to 1) between monetary spending and real spending was observed. Second, there was limited number of years for calculating the correlation. Even if there is a strong relationship between the two variables, sig2-tailed value can be larger than 5% when the sample is limited. Indeed, a high correlation coefficient as 82.7% reinforces this possibility.

There is a non-significant correlation between real interest rate and domestic tourism demand. An opposite result in the outgoing tourism can be seen. Furthermore, it was stated that the strong influence of the interest rates shadowed the growth

impact. But here, we see dominant effect of the growth rather than the real interest. On the other hand, it may be considered that the real interest rate is a very important variable for tourism demand when considering only external passive tourism. But considering domestic tourism, this is no more valid. The results related to the strong effect of the interest rate in the external passive tourism rather than domestic tourism and high increase in the annual average domestic tourism expenditure compared to the growth rate of the economy should be explained by other remaining factors. Some additional results may also be derived from this case.

In scientific studies, an opinion that is best compatible with a particular phenomenon is to be accepted as correct

unless otherwise proved. Depending on this approach, the possibilities related to the issue are discussed below.

The effect of the growth on tourism demand is related to the consumer's income level rather than the cost of travel. However, interest rate is a kind of "opportunity cost" for the consumer. According to the traditional macro-economics, if a person does not lend his or her own money, he or she deprived of obtaining interest (Parasiz, 1998:350). Although rise in interest rates, if a person goes on vacation rather than lending money, it is possible to think that this travel is very costly. So, for a tourist, reduction in interest rates means reduction in the holiday cost. Purchasing a good or service while its price is down and not purchasing it when the price is high shows whether the good or service is essential to the consumer or not. It is possible to have similar choice regarding interest rate on overseas travel expenses. It is possible that the desire to travel is more powerful in the domestic tourism (compared to non-passive tourism) and holiday may be considered as a part of life. The number of domestic travels is about 90% of country's population in the domestic tourism (population is 76 million). But, the number of travels abroad was only 10% of the population in 2013 (there are no statistical data about repeated travels in the both domestic travels and travels abroad). These results show that domestic tourism has very high participation rate comparing with foreign passive tourism. In other words, domestic tourism seems a part of life among Turkish citizens. But, travelling abroad is a decision depending on cost assessment.

Lower interest rates could have been effective in domestic tourism. But, it is more meaningful to look at the overall average value of the interest rate rather than search for a correlation between domestic tourism demand and interest rate during the crisis period. During the global crises, real interest rates were at a low level compared with previous. The low interest rates could also increase domestic tourism movement higher than the rate of economic growth. In other words, it may have been catalytic.

4. Results

The global crisis slowed down economic growth in Turkey as all over the world. Although it did not come down to zero, a state defined as "recession" in the literature.

Turkish tourism sector grew rapidly in the pre-crisis period, despite decrease in exchange rate and increase in inflation. During the crisis, there was a significant reduction in the growth rate of active tourism despite the increase in the exchange rate slightly above the inflation. By analysing together these two periods, the effect of global crisis is considerable on Turkish active tourism demand.

External passive tourism demand increased well above the average annual growth rate of the economy before the crisis period in Turkey. The rise in the dollar exchange rate (despite inflation) played an active role in this demand increase. The effect of crisis on external passive tourism was relatively strong, while it was very limited on domestic tourism and external passive tourism. During the crisis period, the

demand for travel abroad was even higher than the pre-crisis period. Moreover, this conclusion could be reached despite a little high increase in the exchange rate over the inflation. Declining real interest rates played the most effective role in this scenario.

There are no data about domestic tourism for the pre-crisis period in Turkey. During the crisis period, increase in domestic tourism demand was well above the increase in the average annual economic growth. Correlation analysis indicates that growth is also the principal cause of the increase in the domestic tourism demand. Despite that there was no correlation between domestic tourism demand and the interest rate, a low interest rate in this period (compared to previous periods) might be effective for the increase in domestic tourism demand (but could not be observed clearly). But, the effect of interest rates on external passive tourism is much more powerful than on the domestic tourism.

If other factors are stable (*ceteris paribus*), there is no doubt that the slower increase in revenues (which is identical to the global crisis) would have slowing effect on tourism demand. These results are evident especially in the foreign active tourism. In the crisis period, evidenced effect of inflation and exchange rate on tourism demand makes this study authenticated.

The effect of variables, such as interest rates, exchange rates, inflation and growth on tourism demand (regardless of the crisis cases), provides a better insight of the issue. For example, increasing tourism demand (despite of the crisis) in the foreign passive tourism can be considered an important point for one who wonders the effect of interest rate on tourism demand. Comparing the pre-crisis and crisis periods and using some economic variables as a tool for indicating the effect of the crisis on tourism demand is also another important point that makes the study more comprehensive.

One of the most important findings of the study is the effect of real interest on tourism demand. This finding is in accord with the fundamentals of traditional macroeconomics and Maslow hierarchy of needs. In addition, it is commonly accepted approach that interest rates fall down in times of crisis (the cause is not addressed here). Based on this approach, it would be assumed that the global interest rates slowed down not only in Turkey but also in rest part of the world during the crisis. If interest is an effective tool in increasing tourism demand (findings in this direction in the external passive tourism and domestic tourism in Turkey), travelling abroad could have increased rather than decrease in every country. Furthermore, if one country's external passive tourism is other's active tourism; can foreign active tourism of all the countries expand instead of contraction?

In such a debate, it is important that how much and how quickly interest rates are reduced. For example, when the worldwide economic growth is dramatically slow during a crisis, a small reduction in interest rates cannot be sufficient to prevent a decline in the tourism demand. Thus, perhaps, it only helps in further decrease. In particular, the interest rates are already low in the developed countries from a long time. Further decline in the interest rate might have been

insufficient to stimulate demand. But, it should be remembered that interest rates were not at a low level for a long time in the Turkish economy. Interest rates decreased rapidly in the last 10 years. This stresses a different approach for Turkey. Indeed, the high interest rates before the crisis period (10.44%) and low interest rates during the crisis period (3.20%) confirm this view. Thus, it reinforces the view that the interest rate is an effective tool in economic growth during the period of recession.

5. Research Limitations

This research has a number of limitations. Firstly, the prices could not be taken into account in terms of dollars as a separate variable. This is a problem related to the lack of data. However, depending on competitive character of the tourism sector, the price equilibrium assumption was used for both foreign and domestic tourism products. This assumption can be considered realistic. Depending on validity of this assumption, interior prices change when overseas prices change and it may be considered that dollar-denominated firm's prices has limited value as a variable in the country's tourism. Secondly, domestic tourism-related data was not located before the crisis. However, the data of the crisis may also allow the removal of a specific result. Thirdly, the study based on main economic variables such as inflation, real interest rates, dollar rate and growth. In real business life, there may also other factors that affect tourism demand. But, it is not possible to take into account all factors in the same study.

Future research should extend our analysis to other countries or regions where inflation rate, interest rates, currency and growth is different as well as economic conditions. Furthermore, the study only tested the effect of main economic variables on tourism demand. Future research may benefit from looking at the effects of other variables on tourism demand.

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