


Chapter 4

The Effect of COVID-19 on the Tourism Sector in Turkey: An Evaluation with Financial Statement Analysis

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ABSTRACT

This study aims to reveal the effect of COVID-19 on the financial performance and position of the tourism sector. The financial statement data of the firms traded in the restaurants and hotels sub-sector in Borsa Istanbul were analyzed by using financial statement analysis techniques. According to the comparative income statements, the firms' total profit turned into a loss by declining 181%. The first 9-month analyses are essential in revealing the significant decrease in the firms' revenues and the fact that the expenses could not be reduced; the firms sold fixed assets and realized capital increases to continue their activities. The policymakers should develop a comprehensive cash support policy and develop short-term measures such as cost-free financing opportunities and expanding loan opportunities to reduce the damage.

INTRODUCTION

In the last days of 2019, China reported to the World Health Organization (WHO) a new coronavirus type: COVID-19. WHO characterized COVID-19 -19 as a pandemic on March 11, 2020, due to its contagiousness and severity. By March 2021, it has been diagnosed in more than 200 countries, the recorded cases have reached nearly 125 million, and 2.7 million people died due to COVID-19 -19 (Github, 2021: JHU

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CASE COVID-19 Data). During 2020 and 2021, all governments have been trying different measures to prevent the numbers from increasing.

Governments' majority of measures to control the pandemic are based on social distance and individual isolation. Countries have primarily closed their transportation networks with other countries. Later, to reduce people's mobility at the local level, intercity transportation was also restricted, and people were encouraged to stay home. Since the world has become a global town in the last thirty years, implementing such comprehensive isolation processes has made it inevitable to experience many sociological, psychological, financial, and economic problems. Many different organizations around the world have begun to seek solutions for these problems. In an economic context, as of the second quarter of 2020, the economic problems caused by COVID-19 have become a common topic on a global scale.

The pandemic's economic effects can be examined under two main headings. The first one emerges directly with the governments' restrictive measures to reduce the virus's spread. The restrictions to prevent people's mobility and reduce the risk of contamination have resulted in many new costs for businesses and a decrease in sales volumes. The contraction of the transport sector's transaction volume, the decrease in international tourism activities, and the mandatory regulations in many sectors' working conditions are just a few of these effects. The second has arrived with the pessimistic expectations of economic actors due to the epidemic. With COVID-19, there has been a severe change in households' consumption habits and economic activities, ranging from daily routine activities to working life and social relations. In this context, social life has become more individual-centered within the framework of social distance and isolation rules, and people with pessimistic expectations have adapted to the new order. The fact that crowded environments continue to be risky and the decreases in the number of cases are temporary had made pessimistic expectations chronic even when the measures were reduced.

Many sectors were directly or indirectly affected by these governmental and individual factors and faced severe losses. Tourism and transport are among the most affected sectors. Since the declaration of COVID-19 as a pandemic, the first and most rigid measures taken are in these sectors. Apart from measures, pessimistic expectations, the change in individuals' consumption habits, evaluating touristic activities, or travel as risky are among the most important reasons for the shrinkage in demand in these sectors.

This study aims to embody the pandemic's contractionary impact in the tourism sector. In this context, an empirical observation was carried out for Turkey, where the tourism sector is an essential building block of the economy. After explaining the pandemic's effects on the tourism sector theoretically, these effects are analyzed on firms' financial statements traded in Borsa Istanbul. With the policy recommendations developed considering the analysis results, this study tries to determine the administrative and financial arrangements that can be made to eliminate the corrosive effects the sector faces and make the sector more advantageous than its international competitors as it used to be.

BACKGROUND

The world economy was expected to grow at least 3% in 2020 (IMF, 2019; HSB, 2019). TURKSTAT announced on March 1, 2021, that Turkey achieved 1.8% growth in 2020. Many developed and developing economies, on the other hand, closed the last year with a negative growth rate. It could be foreseen only in the most pessimistic scenarios that a virus could have such damaging effects on the economies in this technology age. However, it did happen.

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