

GOVERNMENT

## Turkey's depreciated currency gives luxury spending a boost

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*Turkey's crisis was brought on by sanctions from the U.S. Image credit: Turkish Ministry of Foreign Affairs*

By DANNY PARISI

The Turkish lira is in crisis at the moment, causing problems for many of the country's citizens while also having the side effect of boosting the local luxury business.

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Over the last few weeks, the lira has lost more than 45 percent of its value, due in part to retaliatory tariffs placed on the country by President Donald Trump. Throughout the country, luxury brands and stores are reporting higher traffic and sales from tourists thanks to the depreciated value of the currency.

"The visitors to Turkey spending U.S. dollars and euros are enjoying a windfall and buying up all the luxury products," said Marie Driscoll, principal of **Driscoll Advisors**, New York. "It's a nice moment, an arbitrage if you will, but likely short-lived.

"Most luxury brands have adopted a global pricing strategy since the Chinese yuan depreciation a few years ago, and will likely adjust prices in Turkey with new shipments," she said.

### Harsh sanctions

Over the last few weeks, President Trump has instituted harsh penalties on Turkey, doubling the tariffs on steel and aluminum.

This move had an immediate effect on the value of the Turkish lira, bringing it down to almost half of its original value in just a few weeks.

The lira's depreciation has caused much consternation for Turkey, whose president retaliated by freezing the assets of two U.S. officials in Turkey. However, it has also had the side effect of turning Turkey into a temporary luxury hotspot.



*Chanel is one of the brands reportedly seeing an upswing in Turkey. Image credit: Chanel*

According to a report from Bloomberg, people are lining up at the various upscale boutiques in Turkey to buy luxury goods at a much cheaper rate than can be found elsewhere.

Bloomberg cites a Chanel bag going for 18,500 liras, or \$2,877 at current exchange rates, compared to \$3,700 elsewhere.

#### Unexpected side effects

Oftentimes when political upheavals or economic crises occur, unexpected side effects can come with them. For a country whose currency is suddenly devalued, a surge in luxury shopping from foreigners is a common result.

For example, Chinese travelers' spending on luxury goods in the United Kingdom rose significantly after the country voted to leave the European Union.

Fung Global's report on Chinese travelers in the U.K. found that the number of visitors from China to the U.K. has steadily increased over the years and Chinese spending on luxury goods while abroad saw a sharp increase in the wake of the Brexit vote and the subsequent depreciation of the British pound.

Figure 1. RMB to GBP Exchange Rate, 2016



Through November 28  
Source: USForex

*Favorable exchange rates in the UK after Brexit vote. Image credit: USForex*

The depreciated pound has meant that spending while abroad in Britain has become more appealing as well. Among no group is this more prevalent than the Chinese traveler, a frequently studied group in luxury research given their propensity for making large purchases while abroad ([see story](#)).

Turkey is now experiencing a similar situation thanks to the sanctions placed on the country by President Trump. But what will be the extent of this effect?

"Given the political and financial instability of Turkey, I don't see it as vacation destination, nor do I expect luxury companies to invest in Turkey near term," Ms. Driscoll said. "Turkey's currency volatility will tend to reduce discretionary and luxury purchases by the locals."