Exchange rate volatility and tourism – revisiting the nature of the relationship

Andrea Saayman[1*] and Melville Saayman [1*]

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1

Tourism Research in Economic Environs and Society, North-West University, Private Bag X6001,
Potchefstroom, South Africa 2521; e-mails: andrea.saayman@nwu.ac.za & melville.saayman@nwu.ac.za
* Corresponding author

Abstract Tourism literature mainly argues that exchange rate volatility signals risk associated with a destination, which may cause tourists to refrain from visiting the destination and/or cancel their trips. This is especially true if the cause of volatility is seen as a result of political unrest or instability. However, not all volatility is due to country-specific factors and the volatility of the South African rand (ZAR) is an example of this phenomenon. Because of the floating nature of the currency, sharp depreciations in the value of the ZAR have been felt during crises times. Since the ZAR volatility is not always associated with adverse political conditions, it is postulated that volatility may influence spending in South Africa, and not only arrivals. This paper therefore investigates the relationship between exchange rate volatility and international tourism to South Africa. Volatility is modelled using GARCH models, while the influence thereof on tourism is modelled using an autoregressive distributed lag model (ADL) and a bounds test approach. Results support the notion that spending is more consistently influenced by volatility than arrivals.