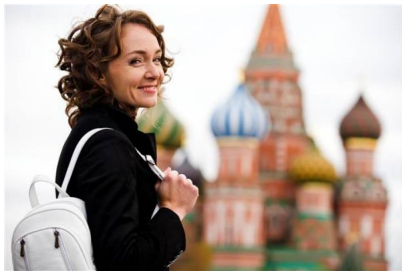


FALLING RUBLE HITS RUSSIAN TOURISM INDUSTRY



Weakening of the Russian ruble against other major foreign currencies has brought about the shrinkage of the outbound tourist flow from Russia to the European countries this year. The ruble has weakened as a result of the falling price of oil, which is Russia's key export, and western sanctions.

Gas and oil account for approximately half of Russia's federal budget revenues and two thirds of its exports, making its asset prices and economy heavily dependent on the global energy prices. The western sanctions have been imposed on Russia as a result of the turbulent situation in the international political arena.

One of the major effects of the falling ruble has been an increase in the overseas and outbound flights expenses of Russian tourists. According to the online booking company Biletix air fare price inflation has become endemic in Russia. In November, ticket prices increased by 17% year on year.

Kirill Faminsky, head of the Pososhok airline ticket sales agency, said that the falling ruble could cause an increase in ticket prices for international flights by 25% to 30% this month. Faminsky also said that demand for trips abroad during the New Year holidays could decline by as much as 40% if the depreciation of the ruble continued at the current pace.

The troubles facing Russia's tourism industry due to the weakening Russian ruble, has also resulted in 24 tour companies stopping their operations.

According to the acting director of the federal agency for tourism (Rostourism), Oleg Safonov, the number of tourists traveling to European countries has seen the biggest decline ever, while mass tourist destination countries such as Egypt, Turkey and Thailand have had the smallest decline of (Russian) clientele.

However, the falling ruble has also produced some positive effects. As the ruble weakens, overseas and outbound flights expenses are rising, making it more attractive for Russian tourists to holiday in their home country. **This has resulted in a significant increase in Russia's domestic tourism.** According to the Tour Operators Association of Russia, the number of passengers opting for domestic flights has increased by approximately 15% in October compared to the same period last year.

Another positive effect that has been caused by the falling ruble is the growth of Russia's hotel business. According to the chairman of real estate company NDV Group, Alexander Khrustalev, Russia's hotel business in the next 3 to 5 years will be the most attractive investment segment; this is due to the fact that less than 10% of Russia's inner tourism potential is being exploited. Khrustalev also said that, that demand in the hotel business lies in the medium sized 3 to 4 star hotels in regions that neighbor Moscow and other large cities in Russia.

Mikhail Kolesnik, senior director of Marriott International, Inc. responsible for development in Russia and the former countries of the Soviet Union, has said that the mid-range hotels in Russia will

be the biggest beneficiaries, while there's falling profits and saturation in Russia's luxury hotel segment.

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