

The European Financial Economic Crisis and Impact on Tourism & Hotel Industry Performance

- the case of Greece
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Introduction

As a modern Greek, I do not possess the powers of Pythia of Delphi to issue an oracle (even one with a twin meaning) regarding future developments for Greek tourism beyond the upcoming elections of June 17. Nevertheless, as there are a number of misconceptions and scapegoatism regarding Greece, I would like to contribute this piece to help put the country and its tourism sector in a clearer perspective and in this way contribute to the discussion about finding a sustainable way out of the current crisis ripping apart our society.

The Euro / Debt crisis

Greece has been caught in a vicious spiral of deflationary pressures and debt explosion, fuelling into each other, since April 2010.

My reading of the situation is that the country had a big party between 2004 and 2009 -which included moving from a government primary surplus (i.e. income *minus* expenditure before interest and debt repayment, i.e. akin to a public sector EBITDA) of ~4% to a government primary deficit of ~ -9%- which could not be sustained. This coincided with a sharp reversal of EU policy regarding EURO sovereign debt. The EU / ECB until the end of 2009 (and more specifically up to the point that the state-owned Dubai World defaulted in November 2009) had at least implicitly let the markets understand that all €-denominated sovereign debt would be honored; hence, the minimal spread on Greek government bonds compared to the German government bonds.

The implication of this was that Greece had to go back to a standard of living of ca. 2004 (which was inferior but by no means 'bad') and pay off a big debt. There are plenty of serious economists who had charted a path to do so via structural changes promoting investments and privatisations as well as a tight fiscal policy i.e. a fiscal policy aimed at cutting billions of wasted expenses and fighting rampant tax evasion. Alas, our politicians (possibly reflecting a society in delusion and largely taking advantage of the status quo ante) were unable to free themselves from a populist clientelism to pursue these policies and -to the extent that they did- pursued them half-heartedly and lukewarmly; this is the real issue that will be faced head-on at the upcoming elections and beyond.

The problem was compounded by the Troika (IMF-ECB-EU) which pursued rather narrow-minded policies; to be fair to them, our politicians, for the reasons just mentioned, have not given them the space to be more open minded and accommodating. As a result, Greece has

experienced a loss of income in the order of 17% and it is expected that contraction will continue well into 2013 leading to an overall shrinking of the GDP of ~20%, bringing it back to 2003 levels.

Despite these adverse developments, significant structural adjustments have taken place :

- Within two years, 2010-11, Greece regained over 50% of competitiveness lost during 2000-09. As a consequence 2011 exports and import coverage were at an all time record ;
- 2011 tourism arrivals and receipts were also at an all time record ;
- according to OECD and AMECO, Greece has performed the fastest fiscal consolidation ever (8.2% of the GDP in two years). As a result, during the relative calm of the first 4 months of 2012, the government recorded a primary surplus ;
- during the same period and after a two year period of a bank 'jog' during which banks lost ~€ 70 bn of deposits (~ 30% of the precrisis level), deposits rose in March and April 2012 ;
- according to the Euro Plus Monitor, Greece ranks No. 2 in terms of the degree of adjustment in its economy during 2009-2011 ;
- there are significant investments waiting to be made once the issue of whether Greece will be a € or non€ economy is resolved. In this respect this ongoing discussion has been, in my opinion, the single most important driver to the catastrophic turn events have taken recently.

Last, but not least, according to the OECD, Greeks are the hardest working nation in Europe with 2017 hours worked per person on average.

For those interested to form an opinion based on hard facts, I recommend downloading the pdf presentation in www.greeceischanging.com which provides a lot of them.

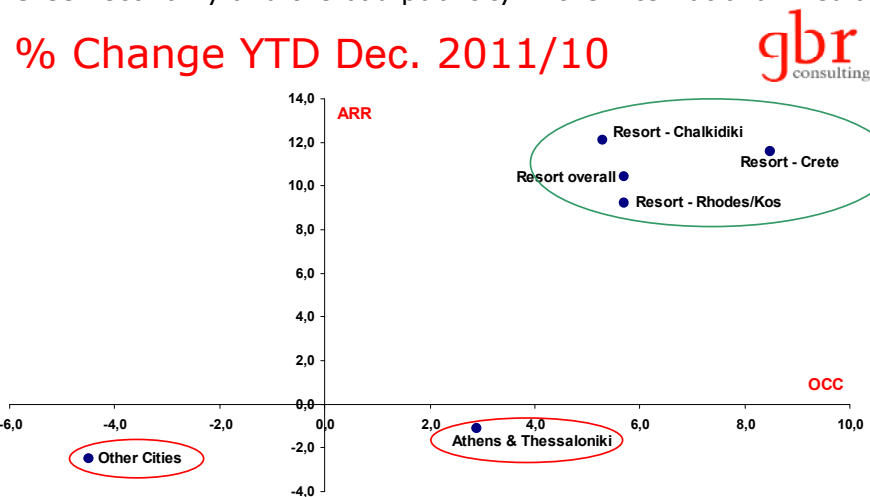
Greek Tourism

Following the boost given by the Athens 2004 Olympic games, tourism in Greece saw a considerable rise until 2008. Since 2008 Q4 however a) developments have not been positive and b) have not been uniform across the country. In particular, due to a period of prolonged unrest in Athens (since December 2008), which has often been grossly exaggerated by international media, but also due to the international recession following the Lehman bankruptcy in Sept. 2008, Greek tourism took a dive in 2009. Athens was particularly hard hit.

Year	Arrivals		Overnights	
	Total	% Change	Total	% Change
2005	14.388.182		153.439.900	
2006	15.226.241	5,82%	162.165.200	5,69%
2007	16.165.265	6,17%	161.235.200	-0,57%
2008	15.938.806	-1,40%	152.596.100	-5,36%
2009	14.914.537	-6,43%	141.443.700	-7,31%
2010	15.007.493	0,62%	140.175.700	-0,90%
2011	16.427.247	9,46%	150.978.200	7,71%

Source : SETE

As the slide below shows, however, since 2010 numerous resort destinations, particularly the ones that depend on international tourism, have seen a strong recovery ; on the other hand, Athens and destinations dependant on local tourism, have been further hit by the deep recession in the Greek economy and the bad publicity in the international media.



Tourism is one of the most important sectors of the Greek economy, contributing (directly and indirectly) 16.5 % of the GDP and 18.4 % of employment (source : SETE). As a product and an investment opportunity, it is also a sector which has a natural hedge in case Greece exits the Euro and issues a new devalued currency.

At the moment, Greece has the following advantages as a tourist destination :

- it has been long established ;
- it has numerous very good hotel facilities ;
- it offers a variety of styles (islands, historical, yachting, cruises etc) ;
- government policies are in place that aim to promote (with various degrees of success) the natural, cultural, and history of the country ; these include the introduction of a Tourism Masterplan at a national level. Despite the criticism encountered, the initiative has shown the efforts made by the government to establish standards that did not exist before ;
- the support of key tour operators : during the current negative climate about the country, numerous strong tour operators from key European source markets have publicly supported Greek tourism ;
- the opening up of new markets in Russia, Eastern Europe and the Middle East.

However, several challenges remain in order to improve the position of the Greek tourism internationally:

- the tourist 'product' is very focused on 'Sea & Sun' ;
- this has led to strong seasonality, especially in comparison with direct competitors, as well as
- high dependence on international flight connections and, consequently, tour operators ;
- arrivals from the five main source countries (Germany, UK, France, Italy, Holland) represent approximately 50% of the total and those of the two main countries (Germany,

UK) approximately 30% ; however both percentages have come down by approximately 10% compared to 10 years earlier ;

- bureaucracy regarding new investments ;
- the Tourism Promotion Strategy is unclear at a time when the Mediterranean tourism market is becoming increasingly competitive and key competitors (e.g. Croatia, Turkey etc. are strengthening their position);
- last but by no means least, at the moment, the most important challenge for the country is to regain economic and political stability as a member of the EU and the Eurozone as the current uncertainty impacts adversely not only investment outlook, but also its image and prospects as a tourist destination. According to market sources, since the elections of May 6, summer bookings are down by 30 to 50% compared to last year.

What does the future hold? please read my introductory comment ...