SETE

Greek Tourism

Developments - Prospects

Synopsis

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Summary and Conclusions

Macroeconomic Environment in Greece

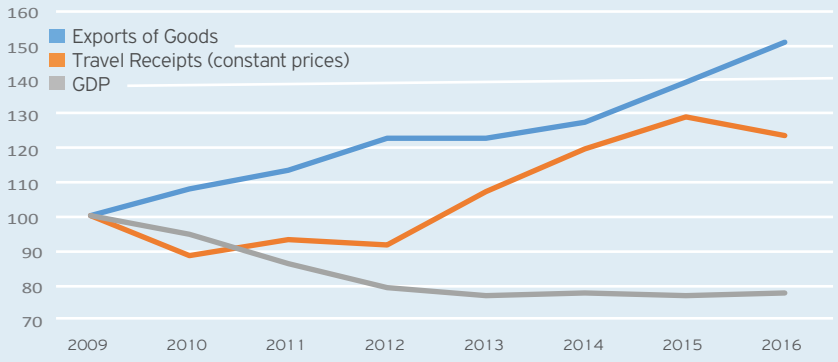
[1] *See Issue 1 here.*

Greek GDP is set to recover within 2016, as forecasted in the first issue of our report Greek Tourism – Developments and Prospects[1] in July, despite i) the uncertainty caused yet again by the inability to conclude the 2nd review of the Greek programme in time, ii) the unjustifiable anti-growth tax policy and iii) the economy operating under capital controls. Therefore, the aberration in economic policy during the first half of 2015 and the burdening of the economy with new uncertainties and useless anti-growth fiscal measures in the first half of 2016, eventually did not have a negative impact on the growth prospects of the economy, with an average annual rate around 3.0% for the period 2017-2030, as had been evidenced in 2014.

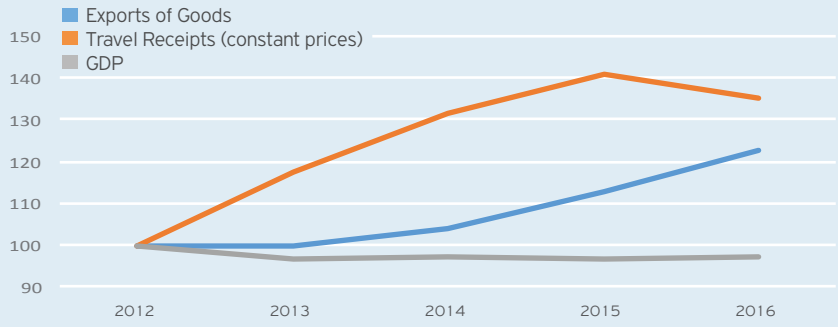
» Greek GDP recovery is based on fiscal adjustment and structural reforms achieved by the end of 2014.

Greece's macroeconomic (fiscal) adjustment and achievements in terms of structural reforms and international competitiveness up until the end of 2014 have essentially not been disturbed. Consequently, and contrary to the pre-crisis period, the recovery is due to the reorientation of the Greek economy towards exports of goods and tourism, rather than due to an increase in consumption through borrowing from abroad. This development can, in turn, be attributed to the restoration of the competitiveness of the Greek economy.

Greek economy reorientation towards exports (2009 = 100)



Greek economy reorientation towards exports (2012 = 100)



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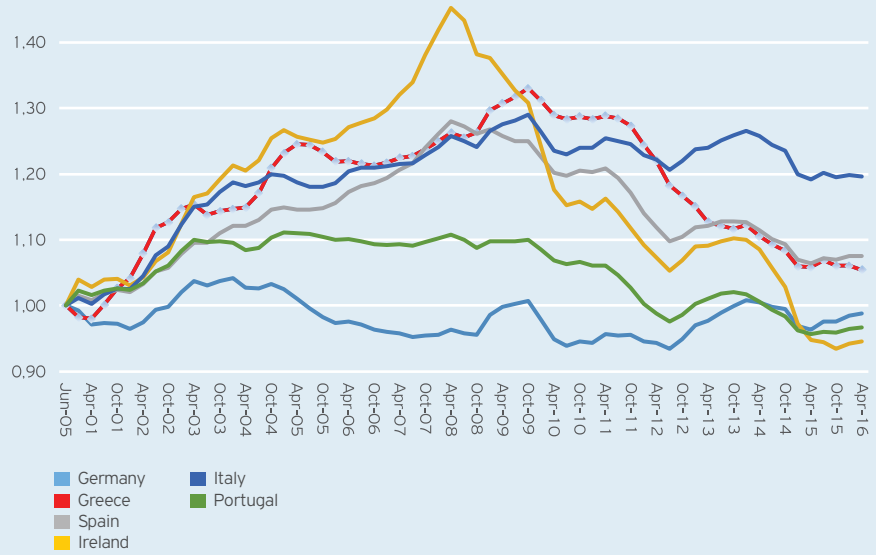
Real Effective Exchange Rate for Greece and competitors on basis of Unit Labor Cost against 37 competitive countries



Percentage change of Real Effective Exchange Rate for Greece and competitors on basis of Unit Labor Cost against 37 competitive countries included in EC 'basket'

	Germany	Greece	Spain	Ireland	Italy	Portugal	Kúnpos
Q4 2009/2000	**0,7%**	**33,0%**	**25,0%**	**30,9%**	**29,0%**	**10,1%**	**26,1%**
Q4 2011/Q4 2009	-5,1%	-4,3%	-6,2%	-14,6%	-3,5%	-6,7%	-1,3%
Q4 2012/Q4 2009	-5,7%	-12,3%	-11,6%	-18,3%	-5,4%	-10,4%	-4,8%
Q4 2013/Q4 2009	-0,8%	-16,0%	-9,7%	-15,7%	-2,4%	-7,3%	-4,5%
Q4 2014/Q4 2009	-1,2%	-18,6%	-12,5%	-21,4%	-4,3%	-10,6%	-9,5%
Q4 2015/Q4 2009	-3,1%	-20,3%	-14,4%	-28,6%	-7,3%	-12,9%	-13,9%
Q2 2016/Q4 2009	**-1,8%**	**-20,7%**	**-13,9%**	**-27,8%**	**-7,3%**	**-12,2%**	**-12,9%**
Q4 2011/2000	-4,5%	27,3%	17,2%	11,8%	24,5%	2,7%	24,5%
Q4 2012/2000	-5,1%	16,7%	10,4%	6,9%	22,0%	-1,4%	20,0%
Q4 2013/2000	-0,1%	11,7%	12,9%	10,3%	25,9%	2,0%	20,4%
Q4 2014/2000	-0,5%	8,4%	9,4%	2,9%	23,5%	-1,6%	14,1%
Q4 2015/2000	-2,4%	6,0%	7,0%	-6,6%	19,5%	-4,1%	8,6%
Q2 2016/2000	**-1,1%**	**5,4%**	**7,6%**	**-5,5%**	**19,6%**	**-3,3%**	**9,9%**

Source: European Commission: Price & Cost Competitiveness (18 December 2015) and European Economic Forecast (Winter 2015).

The Contribution of Tourism

Tourism has contributed significantly in this national effort:

- It has become a true national champion in the race for a more extroverted Greek economy, given that more than 90% of its revenues are derived from abroad, within an extremely competitive global environment.
- According to the Labour Force Survey findings, at peak periods, tourism employs more than 10% of the country's labour force and has become the 3rd largest employment sector (after commerce and the entire primary sector), ahead of manufacturing and the public sector.

»

Greek tourism, which is 90% export based, makes a key contribution to employment, GDP and competitiveness of Greece in the global market place.

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International trade in services grows faster than the rest of the economy.

- It is part of a dynamically developing activity internationally, which is expected to grow at a rate over 4% in 2017. Furthermore, contrary to popular opinion that sustainable growth can only be based on the manufacturing sector, evidence on the economies of our main markets suggests that imports of services (which include tourism) from these countries are expected to grow at a higher rate compared to their GDP and private consumption.

GDP 2016

	Consumer Confidence Index	Change Forecast 2017 (%) GDP	Private Consumption	Imported Services
Germany	high	1.5	1.4	3.9
UK	high, but has dropped	1.3	1.5	1.7
France	negative, but has improved compared to last year	1.4	1.3	3.8
Italy	negative, dropping	0.9	0.9	3.8
USA	steadily positive	2.1	2.2	2.6
Russia	negative, improving	1.1	0.4	10.0

Source: European Commission, SETE Intelligence Forecasts

- The apparent downturn in revenues for 2016, after 3 years of exponential increase (+41% between 2012 and 2015 in fixed prices), is due to the international trend associated with a decrease in the average per capita expenditure. It is also due to the fact that because of the prolonged uncertainty in the first half of 2016, the Greek tourism product was late in entering the international tourism market, leading to large last-minute offers to attract customers.
- The demand for international air travel to Greece remains quite high, while there is also a comeback of traditional markets, especially the German-speaking ones. Meanwhile, road tourism has recovered significantly over the last few months and a positive change is expected in arrivals for 2016.

Evaluation of excessive tax burdens

However, the extremely high taxes on the Greek tourism product, primarily an export product, are a significant inhibiting factor in this effort, excessively burdening competitiveness, business incentives and the disposable income of employees, while at the same time exacerbating seasonality.

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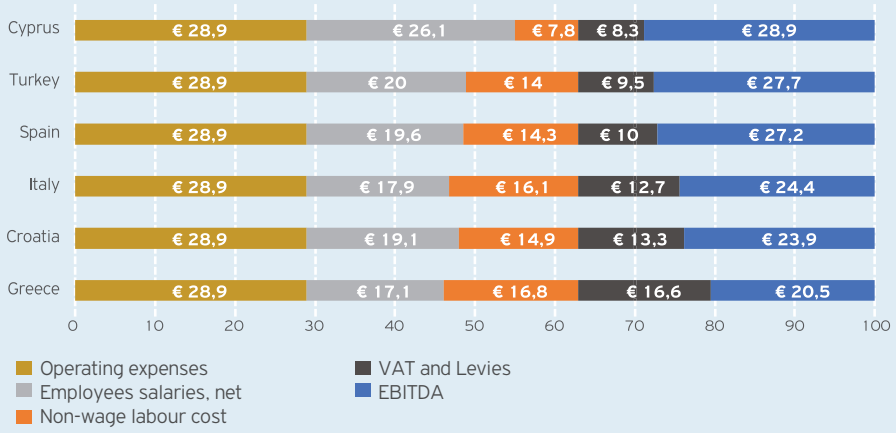
The excessive taxation of Greek tourism, a par excellence export service, burdens competitiveness and inhibits entrepreneurship and work incentives, while simultaneously exacerbating seasonality.

Distribution of € 100 spent by client in operating expenses, taxes and profit, in Greece and competing destinations



Using an example of a 4-star hotel, that focuses exclusively on the impact of the varying tax rates in Greece and competing destinations (Cyprus, Turkey, Spain, Italy, Croatia), it is shown that excessive high taxation leads to:

- **Businesses that largely operate for paying money to the State and not for paying the employees and entrepreneurs, resulting in very low incentives for entrepreneurship and work** – only in Greece is the sum of net employee salaries and earnings almost equal to the sum of taxes and social security payments (€37.6 versus €33.4). On the contrary, in Spain (€46.8 / €24.3), Turkey (€47.6 / €23.5) and Cyprus (€55.0 / €16.1), the businesses mainly operate for the benefit of entrepreneurs and employees, and not for state / social security revenues. The same, though to a smaller extent, also applies for Italy (€42.3 / €28.8) and Croatia (€43.0 / €28.1).
- **Decreased income for employees** – if the Cypriot tax rates were applied in Greece, the disposable income of employees would be 50% higher.
- **Shorter season** – the break-even price for opening (or closing) a hotel is Greece is 16% higher than what it would had been, had the tax rates been the same as those in Cyprus. Evidently, in a market with sharp seasonal fluctuations, Greek hotels enter the market much later and leave much earlier due to the current tax rates, essentially operating only during high season.
- **Decreased competitiveness** – for Greek hotel employees to receive the same salaries as their Cypriot colleagues and the operating profit of Greek hotels to be on par with that of Cyprus, the room price charged to a customer must be 34% higher.
- **(Decreased or) No investments** – the operating profits are not enough to repay the loan instalments. This leads to a vicious cycle, with decreased competitiveness in the future, and therefore, decreased employment and economic activity, as well as decreased tax and social insurance revenues.

These effects are strongest for the most vulnerable groups, i.e. the ones that do not possess a competitive edge, either in the form of a brand name or a branded destination, which would allow them to shift (part or all of) the increased tax burden to the end client.

» The effect is stronger for the weaker players.

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