Tourism Economic and Tourism Development in Greece, in the Period of the Economic Adjustment Programmes

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Abstract

Tourism has become one of the most important economic and social phenomena of the 21st century. This paper examines the evolutionary process greek tourism economy and development, during the period 2009-2019, which includes the period of implementation of the Economic Adjustments Program in the country, up to one year after their completion (in 2019). In this context, it is investigated whether the hotel industry has been able to cope with these difficult conditions and what is the contribution of hotel investment in supporting and restarting the greek economy. From the analysis of the characteristics and performance of the hotel industry, during the sub-study period, it is found that the Greek hotel not only managed to survive in a fully competitive environment, which was characterized by excessive taxation, rapid growth of share-economy and from the inability to access banking financing, but managed to upgrade qualitatively and play a leading role in the country's development effort.

Keywords: tourism, economic, development, Greece

1. International Tourism

As recognised in the 2000s, international tourism is vulnerable both to international political turmoil (terrorist attacks, wars in Iraq, Syria, etc.), natural disasters (Asian tsunami, etc.) and epidemics (SARS disease, etc.), and to international economic fluctuations, as demonstrated during the international financial crisis, which started in the USA in 2008 and soon expanded to other international economies. However, these adverse conditions did not lead to a drop in the total volume of international tourism, though they caused a shift in the orientation and nature of the tourist flows (Chatzidakis 2015, Polyzos S. & Tsiotas D. 2017).

According to the World Tourism Organization (WTO), during the period 2010-2018, the average annual increase in international tourism arrivals remained at 5%, with Asia and the Pacific demonstrating the largest growth rate, which reached 6.3% (UNWTO 2020). Specifically, 1.4 billion international tourism arrivals were recorded for 2018, posting a 6% rise compared to 2017, while foreign exchange revenue in the host countries reached USD 1.5 billion. The annual growth rate of arrivals is clearly higher than the growth rate of the global economy, which reached 3.7%. As a matter of fact, international arrivals have increased by 480 million visitors compared to 2008, the year when the crisis started.

Table 1.1 Course of International Tourist Arrivals & Receipts, 1950-2019

Year	*International Tourist Arrivals,* 1950 – 2019		*International Tourism Receipts,* 1950 - 2018	
	Tourist Arrivals		Tourism Receipts	
	(millions)	Change (%)	(billions of dollars)	Μεταβολή (%)
1950	25		2	
1960	69	10,7	7	13,3
1970	166	9,2	18	9,9
1980	278	5,3	104	19,2
1990	440	4,7	270	10,0
2000	687	4,6	482	6,0
2010	952	3,3	975	7,3
2011	995	4,5	1043	7,0
2012	1035	4,0	1078	3,4
2013	1087	5,0	1159	7,5
2014	1133	4,2	1252	8,0
2015	1195	5,5	1196	-4,5
2016	1239	3,7	1220	2,0
2017	1329	7,3	1346	10,3
2018	1407	5,9	1451	7,8
2019*	1461	3,8		

Source: UNWTO 2019: 16, 2020:25

Over the last few years, cheaper airfares, technological advances that revolutionised online travel and accommodation bookings, new business models, and simplified travel visa issuing processes have contributed significantly towards the momentum gained by the tourism phenomenon. Actually, based on interim WTO statistics, 2019 will be yet another year of intense growth, as international tourism arrivals rose by 3.8%, reaching 1.461 billion people. The slight deceleration in the growth rate compared to 2018 is the result of the prevailing uncertainty due to Brexit, the geopolitical and trade tensions, and mainly, the significant changes the tourism industry experienced following the collapse of tour operator TC and several European budget airlines (UNWTO, 2020).

2. Key figures of Greek tourism

In the second half of the previous century and in the first decade of the current, Greek tourism has experienced at least ten tourism crises, mainly due to global economic recession rather that developments within the country. What is significant, though, is that international tourism demand expressed in arrivals has been following an upward trend all this time. From 2000 onwards, specifically, tourism inflow to Greece experienced the direct impact of the Olympic Games it hosted, which was both positive and negative. The direct result was that during 2004, and despite the expectations, the volume of foreign arrivals was not positively affected (Vlami A. 2008). To this end, it is not coincidental that in the period was followed, attempts were made to focus initially on the quality of the Greek tourism product and then on its competitive edge (Tsartas P. 2017).

Essentially, based on the country's size, inflow to Greece may be split into two periods from the mid-2000s to date: 2005-2012, when – despite the fluctuations – arrivals averaged 15.8 million people, and 2013-2018, when arrivals averaged 26.9 million people. Specifically, during the period 2005-2007, the detection of a temporary upward trend in tourism flow could be attributed to reasons beyond the hosting of the Olympic Games, such as the rise in international tourism flow, part of which came to Greece, the accession of Bulgaria and Romania to the EU, which created the known problems with calculating non-tourist arrivals, etc. From 2007 onwards, the signs of a drop in international arrivals to Athens International Airport started becoming evident, while in the 5-year period 2008-2012, a downward trend was recorded in international tourism arrivals, mainly due to the economic crisis and the uncertainty policies. As noted by Lagos D. (2017), Greek tourism essentially showed clear signs of weakness long before the eruption of the global economic crisis, with serious structural problems, which gradually affected its competitive edge in terms of the value/price ratio.

At the beginning of the 2010s, Greece entered a time when the debt crisis imposed drastic cuts in fiscal expenditure. The deep recession caused the job market to disintegrate. Unemployment, job insecurity, income reductions, collapse of the social insurance fund revenues and rapidly imposed institutional reforms placed social cohesion at risk and tested the resilience of the political system (ITEP 2013). At the time of digital economy and globalisation, tourism, and especially the hotel industry, emerged as an ideal solution to the problems created in the job market. Tourism demand could be satisfied by employing a large number of unskilled, temporary employees – the excess human resources in essence – whom the tourism industry was able to absorb from time to time (ITEP 2013). Therefore, tourism managed to survive and cope as best as it could, while at the same time assisting and supporting the economic structure of the country and playing a leading role in the growth efforts of the Greek economy. 2013 in particular was an exceptionally good year for tourism as the key tourism variables recorded double-digit growth. Specifically, foreign arrivals increased by 18.7% (compared to 2012), overnight stays by 14.4% and tourism receipts by 16.4%.

From 2013 to 2018, a sweeping change was observed in volumes, which is nearing double the number of visitors, as international arrivals exceeded 33 million people (with the average growth rate at 11.8%). Indeed, as Papatheodorou A. (2017) notes, over the last few years, some of the regional island airports mainly have been enjoying increased international budget airline activity between central and northern European cities and regional Greek destinations (Heraklion, Rhodes, Kos, Corfu, Mykonos, etc.). The largest contribution to this increase comes from European countries (with their share increasing from 58.7% to 68.3%), and mainly from travellers who declare one of the following as their country of permanent residence: Germany, UK, Italy and France. According to Kasimatis E. & Sideris D. (2015), external factors aside, this spectacular course is also the result of the structural reforms implemented by the Ministry of Tourism, in line with the requirements of the economic adjustment programmes, aiming to make the tourism market even more attractive and to boost growth following the lifting of the restrictions, through: i. simplifying the tourist visa issuing process for visitors from emerging markets, such as Russia, Turkey and China, ii. encouraging the development of cruise ship tourism by lifting the cabotage duties, iii. streamlining the processes and abolishing the restrictions in the operation of travel agencies and car rental companies, iv. liberalising the tour guide profession, v. establishing extended visiting hours for museums and archaeological sites during spring, etc.

The positive course of arrivals is also reflected in tourism receipts, which followed an upward trend in the period 2013-2018 (with the only exception being 2016, obviously due to the general economic crisis, the imposition of capital controls, the increased migration flows, etc.), with the average growth rate, though, at a smaller level than that of arrivals (6% as opposed to 10.6%). However, the percentage coverage of the balance of trade deficit from tourism receipts strengthened and amounted to around 72% in 2018 from 65.5% in 2013 and just 35% in 2005. According to the World Travel and Tourism Council (WTTC), in Greece, the direct contribution of the sector is estimated to have exceeded 8% of GDP in 2018 and the indirect contribution 20% (WTTC 2019).

Table 1.2 Travel Balance & Total Balance, 2013-2018

Year	Travel Receipts	Travel Payments	Travel Services Balance	Goods and Services Balance	Goods Balance	Services Balance
2013	12.152,2	1.835,2	10.317,0	-3.928,1	-19.672,9	15.744,8
2014	13.393,0	2.076,4	11.316,6	-2.385,3	-20.630,1	18.244,8
2015	14.125,8	2.037,4	12.088,4	-1.084,8	-17.666,1	16.581,3
2016	13.206,8	2.005,3	11.201,5	-1.662,7	-17.960,3	16.297,6
2017	14.630,1	1.904,8	12.725,3	-1.790,2	-19.833,9	18.043,7
2018	16.085,8	2.191,0	13.894,8	-3.184,7	-22.489,1	19.304,4

Source: Bank of Greece 2019

Upon studying how the seasonality of Greek tourism has developed in the period 2013-2018, it can be concluded that, despite the significant rise in tourism receipts in Greece and the even higher rise in arrivals, the seasonality of tourism is a structural problem of the sector that cannot generally be addressed by the rise in tourist flow. As a matter of fact, not only did the seasonality of Greek tourism not drop in 2019, but it remained high and spatially structured. The three island regions of the country (Crete, Southern Aegean and Ionian Islands), along with Attica and Central Macedonia, had 77% of visits, 84% of overnight stays, 88% of tourism receipts and 80% of hotel beds, which essentially also demonstrates the tourism growth model that has dominated Greece, that being the heliotropic model of tourism, coupled with the growth of city break trips. In addition, Crete, the Southern Aegean and the Ionian Islands contribute directly over 47.4% of the GDP of these regions. These regions have one of the highest per capita GDPs in the country, in support of the view that tourism leads to an improvement of the living standards in the areas where it develops.

Table 1.3 Course of Tourist Expenditure per Trip (in euros), 2013-2018

Year	Yearly	Q1	Q2	Q3	Q4
2013	604,2	368,3	613,6	657,7	468,7
2014	551,8	374,2	577,6	598,9	391,5
2015	540,9	287,8	555,9	605,6	380,3
2016	470,5	315,3	485,7	513,1	348,8
2017	485,1	298,9	517,2	515,8	378,8
2018	486,4	301,0	485,6	524,9	415,4
2019		379,1	569,7	573,9	

Source: Bank of Greece 2019

It is also worth noting that the relatively large increase in tourism receipts and the relatively decelerated rise in tourism arrivals recorded so far for 2019 suggest a relative increase in the average expenditure of travellers in Greece. However, the average expenditure in 2018, which was at €69.7, continues to be lower than that of 2013 (€76.3). As also noted by Lagos D. (2017: 128), generally speaking, the drop in the average per capita expenditure raises concerns as to the course of tourism and its role in the Greek economy, while it is already the main topic of discussion not just among bodies involved in tourism, but also among bodies exercising state politics.

3. Features & performance of the Greek hotel sector

Development Law 3908/2011 was enacted a year after Greece resorted to the support mechanism during the first economic adjustment programme. Law 3908/2011 introduced a mix of interventions to restart the Greek economy, establishing general and special support regimes and plan categories, based on special features. For the first time ever, the investment plan categories were grouped into three support regimes: general entrepreneurship, technological advancement and regional cohesion, with tourism investments falling within two of the three support frameworks (i.e. excluding technological advancement).

Specifically, Law 3908/2011 overturned the previously followed investment policy, as it addressed modernisation restrictively, basing it on the same foundation as the establishment of new beds, and placing the exact same condition for both plan categories, i.e. including supported units that belonged in one of the three highest star ratings. As a result, 1-star and 2-star hotels were not modernised. These make up 60% of all main types of accommodation in the country and they are only supported through European funding programmes for such types of plans. At the same time, it introduced the strengthening of complex tourist accommodation without restrictions, meaning uniform areas with mixed land use (home and tourism), which are established outside the city plan and the limits of settlements. This policy also coincided with the establishment of the Hellenic Republic Asset Development Fund SA (HRADF). As Tsartas P. (2017: 65) notes, during the period 2010-2015, the remarkable rise in legislative activity targeting large and special investments eventually ended up supporting many of the existing problems (favourable regulations for small accommodation units, legalisation of additional spaces, and structures built without spatial planning).

A shift from the policy of capitalised cost reduction incentives to that of granting tax reliefs was observed with the adoption of this development legislation. Specifically, until mid-2013, plans belonging to the category of general entrepreneurship could only receive tax reliefs, a choice that is not exclusively justified by liquidity shortages, but also by the attempt of the law to support sustainable and profitable businesses, ensuring the efficiency of available funds. On the other hand, capital support was provided for select manufacturing activities. And all this despite the fact that it had become evident that hotel units were unable to be included in this category, as they had low occupancy rates during that time. Actually, according to the Research Institute for Tourism (ITEP, 2013), in 2012, the average revenue per hotel room (which makes up 60% of the average tourist expenditure) dropped by about 13% compared to 2011. However, Law 4146/2013 liberalised the choice of the incentives mix, therefore, supporting flexible financing for small and medium investors. So it gave tourism investment plans the chance to receive all types of aids, individually or combined, without the tax break being mandatory, but only for 1.5 years before the end date of this legislative framework.

Essentially, although Law 3908/2001 introduced innovations, mainly in terms of the process for submitting and evaluating assessments, which is now carried out through a special online platform and based on the evaluation of rated criteria by two evaluators (chosen randomly through a special register), it did not produce any visible results in terms of tourism investments, both due to the crisis and the restrictions it had instituted, as well as due to the small effective period of the law. Its effective period ended in March 2014, with the introduction of the new Regional Support Map. During the 3 years the law was in effect, only 1,261 investment plans were approved, with the average aid making up 33% of the total budget. Tourism and hotels are in second place of approved investments (after processing), with 266 plans, which mainly pertain to the establishment of high-rating medium and large hotel units. However, according to the most recent figures from the Ministry of Development & Investments, there is a significant delay in the completion of the investments under the law, given that only 8% of all plans (99 investments) had been concluded by the end of 2019, while in tourism, just 20 out of the 266 approved investment had been completed.

However, different signs are observed in the key indicators for the economy and tourism during times of crisis. The key economic indicators (GDP, unemployment rate) follow a downward course or are stable, while, on the other hand, following the short drop it experienced, tourism is recording a rapid increase in arrivals, especially after 2013, which demonstrates the resilience of the tourism and hotel sector during the crisis. One would expect that the improved performance of Greek tourism would transform the sector into a central pillar of the 2014-2020 programming period and the new development law. However, after 2.5 years on standby, without an active policy of incentives for Greece, development law 4399/2016 was enacted, which attempted to correct a series of problems associated with older development laws, one of which was the shifting of aid from tourism and hotel investments – which the legislator simply described as low knowledge-intensive services programmes – to the re-industrialisation of the country, with a simultaneous move towards high value-added trading services. In this vein, the law proceeded with instituting a series of promising innovations, with the most significant being:

- Establishing a limit as to the level of aid (€5 million per investment plan, €10 million per business, €20 million per business group), so as expand the number of businesses benefiting from state aid.
- Focusing on the use of the tax reliefs, provided that they strengthen efficiency and do not create expenditure, irrespective of the final result.
- Limiting the amount of the subsidy to 70% of the maximum permitted percentage of the Regional Support Map (RSM), unless the aid is for special category investments, taking into account spatial and/or type/performance criteria (extroversion, innovation, employment growth. etc.). In this case, the plans in question may be supported with a subsidy incentive of 100% of the maximum RSM percentage.
- Specialising the law into 8 individual support regimes, with a different target each, through which the support project will be implemented.

These changes prompted the reaction of bodies exercising tourism policy during the talks for the draft law, not just because it did not include provisions for supporting tourism, by providing a special aid regime or diverting specific types of aid to relevant tourism investments, but on the contrary, tourism was further burdened by the measures of the European Commission General Block Exemption Regulation (GBER) No. 651/2014 of 17 June 2014, which included a significant reduction in the aid percentages, especially for large businesses (they ranged between 10% and 25% as opposed to 40% of Law 3908/2011). These percentages dropped by 30% upon the institution of the aforementioned cut mechanism or counter-incentive, aiming to mitigate even further the insistence of investors to choose subsidy-free solutions. At the same time, significant comments had been made as to the need to redefine the maximum percentages of regional aids, as they had been determined based on 2008 statistical data, i.e. before the crisis.

Amid all this, in 2017, the new RSM was approved, which still applies to this day and includes more favourable maximum aid percentages, especially for small businesses, as, based on the support regime they fall under, their investment plans could receive up to 55% of their budget in aid, under certain conditions. Specifically, there is intense interest in the hotel sector for three out of the eight regimes, and specifically general entrepreneurship, new independent SMEs and mechanical equipment. The fundamental difference between the first two regimes is that the second is addressed to new (up to 7 years) and under construction hotel businesses, which can receive up to 70% or 100% of the maximum aid percentage of the RSM, provided they fall under the special categories. On the other hand, the mechanical equipment aid regime exclusively provides tax reliefs to businesses wishing for fast inclusion, with minimum criteria and without a tender process.

So, according to Ministry of Development and Investments figures, in the three years the development law has been in effect, 1,800 investment plans have been approved, the majority of which (i.e. 791) pertain to tourism businesses, representing 44% of total investments and absorbing 55% of funds. Specifically, 509 plans (almost 70%) for establishing hotel units have been approved, of which over half are for luxury hotels. Based on the official hotel capacity for 2019, it is estimated that, over time, investments in luxury hotels could increase the units in this category by 35% throughout the country. In addition, 218 investment plans for modernising 3-star to 5-star hotel units have also been included in this law. Note that almost 61% (i.e. 311 plans) of new hotels are expected to be established at the three most developed tourism regions, namely the Southern Aegean, Crete and the Ionian Islands. These are followed by the three regions of Central Macedonia, the Peloponnese and Attica, which make up 25% of the total (i.e. 122 plans).

So, evidently, the country’s hotel capacity continues to be upgraded throughout this time, despite the crisis and the adverse economic and tax environment. Some 9,971 units with a total capacity of 856,347 beds are in operation throughout the country in 2019, as opposed to 9,648 units with a total capacity of 763,668 in 2011. This period is marked by increased investment activity with regard to establishing or upgrading units in the three highest star ratings, and converting old or listed buildings into new accommodation types, such as boutique hotels, etc. Specifically, 86% of the units that opened were included in the 3 highest star ratings (91% in terms of rooms). On the other hand, 70% of units that suspended operations were from the 2 lowest star ratings (64% in terms of rooms). It seems that, as of the middle of the 2010s, luxury hotels entered a period of growth, which was also linked to the trend of centralisation of the country’s hotel capital, creating mixed joint ventures with foreign participation, such as the historic Lampsa Hellenic Hotels SA venture, owner of Grande Bretagne Hotel, as well as large domestic chains, after mergers and acquisitions, as was the case with Grecotel. At the same time, during this period, the hotel sector also experienced fierce competition from the all-inclusive hotels operating in the country. Other factors that led to hotels closing down, especially those with lower star ratings, include the excessive taxation of the tourism sector, the enormous growth of illegal hotel lodgings and the inability to access bank financing.

The quality upgrade of the main productive resource of the country can also be evidenced by the significant funds hoteliers invest annually in renovations, as it is estimated that in the period 2017-2019, they spent around €3 billion (€1 billion per year) to renovate and upgrade their units. However, this is taking place at a time when the success story of Greek tourism is on shaky ground due to the amazing recovery of competing destinations, such as Turkey, Egypt and Morocco. At the same time, the uncontrollable rise in short-term rentals and the collapse of significant tour operators, such as TC, led to losses for the hotel sector, and, consequently, the Greek state revenues. In addition, the seasonality of Greek tourism and its high spatial structure do remain as its key structural problems.

4. Conclusions

The figures available to date on the course of the tourism sector for 2019 demonstrate that tourism is on the rise, both in terms of hotel investments and incoming tourists. This is happening in a year that signals the conclusion of the three-year economic adjustment programme of the European Stability Mechanism, during which consumer trust improved and the expectations of tourism businesses remained high. This positive year for tourism contributed towards increasing employment, boosting the financials of businesses, and strengthening the disposable income and consumption of households. In particular, in the three island regions of the country, tourism and hotels directly contribute in the creation of over 47.7% of the GDP of these regions, in support of the view that tourism leads to an improvement of the living standards in the areas where it develops. However, the seasonality of tourism demand and the intense spatial structure of tourism supply remain as the structural problems of Greek tourism, which, as it seems, cannot be resolved with the current incentives policy and without a specific national spatial planning framework. This is because the incentives policy that was followed increased the spatial structure, with few changes, despite what was sought each time. So in 2019, the three developed island regions in terms of tourism, along with the country's two metropolitan centres, continue to account for 80% of tourism supply and demand. A key feature in almost all these cases, and especially for the islands, is the lack of satisfactory infrastructure. This is because perennially, the spatial structure of the Greek hotel industry is not being linked to a public investment policy that would be able to improve the level of infrastructure necessary to accommodate the volume of the tourism product. Note that all these conclusions are being written during special circumstances, which are changing the nature of tourism, and global economy in general, due to an emerging crisis, this time in the area of health, with the appearance of COVID-19, which started off in China at the end of 2019 and is spreading throughout Europe and the world. No industry is exempt from the distress caused by the outbreak of coronavirus. As advice from global health organizations and governments evolves on an hourly basis, particularly regarding travel bans and gathering restrictions, hospitality organizations are among the first to feel the impact of large-scale quarantine.

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