

Revenues Support the Economy

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Liberalisation of flights to Cyprus from Russia

After exhaustive efforts, an agreement on the liberalisation of flights to Cyprus from Russia during the winter season has been finalised at the Ministry of Communications. The development expands the potential growth for the tourist industry of the island in an effort to combat seasonality and unemployment with the open skies agreement.

Prospects of Tourism

President Nicos Anastasiades announced a scheme aiming at hiring Cypriot employees in the tourism industry: 70% Cypriots and 30% foreign employees

Another proposed measure from the government to boost tourism is the extension of the tourist season to tackle seasonality

The government has decided to go ahead with a casino resort noting it will grant one license. The government announced an incentive scheme aiming at accelerating the construction of golf courses and allowed the development/ conversion of 'Condo Hotels'

Overview: Tourism in Cyprus

The tourism sector was in decline over the past decade, but has experienced substantial growth over the past 2 years. This growth is mainly due to the continued rise of tourist numbers from Russia and Eastern European countries, but also in the increase in arrivals from markets such as Germany and the Scandinavian countries, a trend which is closely associated with the recent developments in North Africa, Egypt and Syria.

Tourist Arrivals and Revenue

In Q3 2013, tourist arrivals demonstrated a Year-on-Year (YoY) decrease of 3.3%. It should be noted that tourist arrivals and revenues in YE2013 are anticipated by the CTO to be somewhat the same level as those of 2012 (despite the recessionary phase that Cyprus is going through).

Table 1: Tourist Arrivals and Income (2007-9M2013)

Indicator	2008	2009	2010	2011	2012	09/2013
Arrivals(€000's)	2,404	2,141	2,173	2,392	2,464	1,995
Total income (€mn)	1,879	1,493	1,550	1,749	1,928	Not Published
Income per tourist (€)	746	697	713	731	782	Not Published

Sources: Cyprus Statistical Service (CyStat), Cyprus Tourist Organisation (CTO)

On the basis of the results of the Passengers Survey, arrivals of tourists reached 357.653 in September 2013 compared to 335.352 in September 2012, recording an increase of 6,7%. An increase of 40,5% was recorded in tourist arrivals from Russia (from 77.149 in September 2012 to 108.426 in September 2013) and 13,3% increase from Sweden (from 17.060 to 19.324 this year). However, a decrease of 1,5% in tourist arrivals was recorded from the United Kingdom (134.589 in September 2012 compared to 132.620 in September 2013). For the period January - September 2013 arrivals of tourists totalled 1.995.446 compared to 2.064.118 in the corresponding period of 2012, recording a decrease of 3,3%.

Revenue from tourism recorded a significant decrease in July 2013, providing moderate support to the economy. According to CyStat (2013), revenue from tourism reached circa €1bn in the 7M2013.

Table 2: Revenue from Tourism – YoY (2010-7M13)

Period	2010	2011	2012	7M13
January - December	+3.8%	+12.9%	+10.2%	-2.1%

Sources: Cyprus Statistical Service, Cyprus Tourist Organisation (CTO)

Arrivals by Country of Residence

In Q3 2013 around 38% of tourist arrivals in Cyprus came from the United Kingdom. It should be noted that in recent years, due to the economic crisis and due to the fact that British travelled to cheaper destinations, there has been a significant drop in arrivals from the United Kingdom, which in Q3 2013 was below 2007-09 arrivals by c. 35%.

Arrivals from Russia, which has become the second biggest tourist market for Cyprus, with a share of 27% in Q3 2013, recorded a significant consecutive rise after increasing by 55% since 2010-11. This has helped to achieve significant increase of total tourist arrivals in the 9M2013.

Table 3: Arrivals per Country of Origin

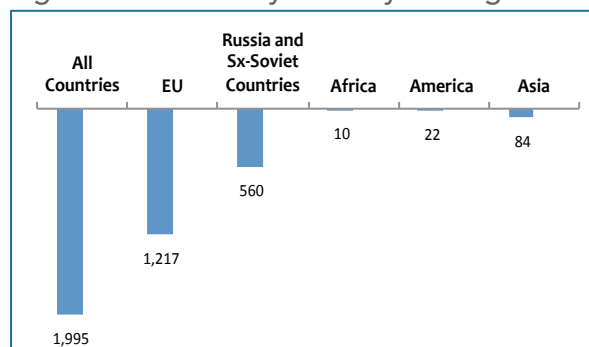
Country	2010	2011	2012	09/2013
UK	996	1,021	972	738
Russia	224	334	481	522
Germany	139	158	150	75
Greece	128	139	134	80
Sweden	110	112	115	103
All Countries	2,173	2,392	2,464	1,995

Source: Cyprus National Statistics (2009-3Q13), CTO

The government, attempting to boost tourism despite the economic meltdown, will initiate a scheme to employ 6.000 unemployed persons in the tourism industry by contributing €21 million that will cover 40 percent of their labour costs. It will also extend the tourism season by two months setting up and executing a strategy to tackle the tourism seasonality effect.

With a stagnating tourism market, only a significant increase in arrivals of Russian tourists and a continuing decline in tourists from Europe, the Cyprus government is looking for measures to boost tourism from China. With regards to potential the Chinese tourism market is attractive. However, Cyprus is still an unknown destination for the vast majority of Chinese tourists. In fact, Cyprus is not well known in Asia at all. Locals in Japan or Singapore do not know where Cyprus is, despite it being a member of the European Union. In contrast Malta, which is comparable to Cyprus in size and tourism revenue, has done a much better job at promoting itself as a tourist destination in Asia and is thus more well known.

Figure 1: Arrivals by Country of Origin Q3 2013



Sources: Cyprus National Statistics (2013), CTO

Tourist Beds in Use

The number of tourist beds in operation decreased from 2004 until 2012, mainly due to the withdrawal of the lower quality beds, which has also contributed to the stabilisation of the occupancy rate of hotel units despite the drop in tourist arrivals.

For 2013, the CTO announced the continuation of the Incentive Plan for the withdrawal of tourist beds of lower rated hotels which aims at changing the composition of stock of available beds, strengthening the importance of tourist beds of higher classes and upgrading the 'tourist product'. The corresponding draft of 2011 resulted in withdrawal of 764 beds compared with a target for withdrawing 20,000 beds.

The plan also provides incentives for urban character and no economic incentives in the form of a grant. The incentives involve primarily increase the current coefficient and change of use to create either housing units or buildings with offices, etc. One of the main reasons of failure of the project in 2011 is the event that coincided with the vertical drop of real estate demand. It is noteworthy that in 9M2013, tourist beds increased by ~40 beds (see below).

Table 4: Tourist Beds in Operation (2010-2013)

Country	2010	2011	2012	9M2013
Cyprus (all cities)	88,234	87,082	86,744	86,784

Source: Cyprus National Statistics (2010-3Q2013), CTO



Occupancy Rates

The gross occupancy of licensed beds declined at 7M13, due to the decrease in tourist arrivals. The highest occupancy levels of beds were recorded in Famagusta and Paphos districts (Eurostat, 2013). There are no available data from the CTO regarding gross occupancy rates for November 2013. The main objectives of the new tourist policy are as follows:

(a) Improvement and enrichment of the tourist product through the creation; (b) Restriction in the rate of creation of new bed capacity and encouragement of the up-grading of existing accommodation; and the (c) The development of 'agrotourism'

- Increase of bookings via the Internet. Holiday bookings via the Internet in the EU amounted to 55% of all holidays within and outside the country of residence in 2011 (Eurobarometer, 2012). Travel portals have outperformed on last minute bookings.
- Search for immediate contact with nature and the desire for real and authentic experiences. Interest in adventure, places that have not been explored.
- Development of new cultural horizons beyond the museums and monuments, including the surrounding space and culture (e.g. gastronomy, tradition, lifestyle, etc)

Table 5: Average Occupancy Rates (2010-7M13)

City (%)	2010	2011	2012	7M2013
Nicosia	29.3	28.2	29.0	23.5
Limassol	38.6	39.3	45.9	31.4
Lamaca	37.0	42.5	48.6	33.6
Paphos	43.6	48.2	55.8	41.3
Total	42.7	44.3	48.9	38.9

Source: EuroStat, Cyprus Tourism Organisation (CTO)

Tourism Sector in the EU

Tourism represents the third largest social and economic activity in the EU, after the business areas of commerce and construction. The contribution of tourism to the GDP of the EU as well as its contribution to total employment is in excess of 7%. Taking into account the areas associated with it, the contribution of tourism to gross domestic product is likely to be around 11% of the GDP of the European Union and that it provides about 12% of total employment.

The key trends observed in the travel habits of Europeans are:

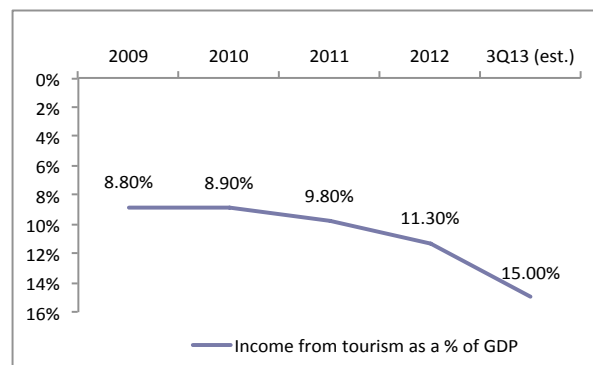
- Increase in the number of leisure travel and reduction in the duration of holidays, in which contributed to the significant development of low-cost airlines.
- Increased interest for last minute reservations and low-cost offers.
- Increase of 'independent' travellers against 'tour operator' (the percentage of tourists who visited Cyprus through organised travel declined from 48% in 2002 to c. 32% in 2012).

Economic Importance of Tourism

The contribution of tourism in the Cyprus economy followed a downward trend over the last decade, as can be seen from the decline in tourism revenue as a percentage of GDP from 21% in 2001 to c.12% in Q3 2013. Also, the contribution of hotels and restaurants in GDP declined from 10% in 2001 to c. 7% in Q3 2013. The overall contribution of tourism to GDP is significantly greater than this value, after benefiting from other sectors of tourism such as transport, construction and retail trade, and estimated as the most important sector in terms of size for the local economy.

Travel & Tourism Council (2013) indicated that investment in the tourism/hospitality sector in Cyprus in 2011 was €227mn and suggested that in Q3 2013 this has risen by c.15% (and should rise by c.5% pa over the next 10 years).

Figure 2: Revenues from Tourism as % of GDP



Source: Cyprus National Statistics, CTO



General Decline in the Tourist Sector

Key Issues in the Tourism Sector in Cyprus

- The main problems faced by the sector, in addition to the erosion of competitiveness, competition from other low priced Mediterranean and exotic destinations, great reliance on the UK market, are
- Pressure on hoteliers from tour operators (carry ~60% of tourists to Cyprus), in view of competition from alternative destinations and economic crisis for rollback in prices/ packages.
- Bureaucratic procedures for the issuance of visas to non-EU residents.
- Seasonality of tourism that forces hotels in coastal areas to suspend operations during winter.
- The quality of the tourist product which, despite the efforts of upgrading such as the creation of golf courses and marinas, needs further improvement.
- The upward trend in the proportion of tourists staying in private residences.
- Erosion of competitiveness and comparatively high rates of the Cyprus tourist product, which makes it expensive even for domestic tourism. The last two years have seen a trend of moderation/price improvement and rise of all inclusive packages.
- Increased competition from other Mediterranean destinations such as Turkey, Tunisia and Morocco as well as the Canary Islands. Almost the entire coastline of North Africa is growing rapidly through partnerships with major tour operators in Europe.
- Great reliance on the UK market, which has been affected by the exchange rate and the financial crisis.

Tourist: Innovation & Rejuvenation

Key Measures for Tourism Stakeholders

- Employ Cypriots: In the medium term, there will be an improvement of the tourism product with the exploitation of traditional Cypriot friendliness and hospitality. Under a joint public-private strategy declared, hoteliers will employ a ratio of 70% Cypriots to 30% of non-Cypriots.
- Invest in low-cost infrastructure: It would be time consuming and of great cost to build a tourism product from scratch. In contrast, municipalities, entrepreneurs and citizens can improve existing infrastructures and initiate lower costs by creating highly sustainable development projects.
- Joint tourist developments: The creation of multipurpose hotels incorporating the likes of shopping centres, offices, retail, residential and entertainment venues, so as to become more economically sustainable.
- Attract global events: Hoteliers should aim to attract and organise large conferences, world trade events, and festivals. As an incentive this would help increase alternative tourism and further prolong the tourist period.
- Privatised Cyprus Airways: Priority should be given to the restructure and privatisation of Cyprus Airways in order for the airline to become more viable and competitive.

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