

The Effects of Fiscal Policy to the Development of Tourism Sector: Evidence into Greek Economy during the Period 2010-2016

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Abstract: The purpose of this paper is to examine the effects of fiscal policy into tourism sector in Greek Economy. This analysis consists a very crucial period for Greece and its economy, the period under a deep economic recession, based on social and economic problems.

This paper suggests three scenarios. Scenario A includes estimated GDP development, had economic policy not been derailed in Jan-Jul 2015.

Scenario B includes estimated GDP development of early completion of first assessment (March 2016) and without imposition of additional unnecessary fiscal measures in 2016.

Scenario C includes estimated GDP development following the delayed completion of the first assessment and the imposition of additional fiscal measures of € 5.4 billion.

Jel codes: O20, O23, Z32, Z38

Keywords: Fiscal Policy, Tourism Sector, Greek Economy.

1. INTRODUCTION

Fiscal and external imbalances accompanied by sovereign debt financing problems have put Greece under joint EU-IMF surveillance since May 2010.

In the context of the EU-IMF financing agreement, the Greek authorities have been implementing the Economic Adjustment Program (EAP) for Greece (IMF, 2010) since May 2010.

Despite mixed or limited progress in structural reforms and the privatization agenda, the Greek authorities did rather well in terms of the fiscal adjustment program. The structural budget balance was reduced from -14.8% of GDP in 2009 to an estimated -1.0% of GDP in 2012 (IMF, 2012b).

Although the fiscal consolidation has been considered successful, it has come at a cost of a dramatic and continuing output contraction. The initial programme foresaw that from a -2.0% growth rate in 2009, the economy would have reached a trough in 2010 and start recovering thereafter, with the growth rates being -4.0% in 2010, -2.6% in 2011 and 1.1% in 2012. However, the recession was deeper and more protracted, i.e., 3.1% in 2009, -4.9% in 2010, -7.1% in 2011, -6.4% in 2012. According to European Commission (2013) the output growth decline is projected to decelerate in 2013 (-4.2%), while a mild recovery of 0.6% is expected in 2014. Though, the OECD (2013) recently announced that it projects a contraction of 1.2% of GDP in 2014. (IMF, 2012b)

The economic adjustment program that Greece has been following since 2010 has significantly ameliorated the fiscal and external imbalances of the Greek economy but with serious implications in terms of growth potential, debt sustainability and socioeconomic conditions.

Between 2010 and 2014 there was a 13.4 percent decline in growth potential (DG ECFIN Economic Forecasts). Over the period from the end of 2008 until the end of 2015 the Greek economy has contracted cumulatively by more than 25 percent as measured by real GDP, intensifying the debt dynamics and contributing to the self-reinforcing nature of the crisis.

Public debt has increased from 109.3 percent of GDP in 2008 to 180.2 percent of GDP in 2015, despite a major debt restructuring (PSI) in 2012. Public debt overshoot the program's projections by a large margin. As the program unfolded, the underlying debt dynamics worsened significantly because output contractions and deflation were more pronounced than expected. Lower nominal growth raised the interest rate-growth differential and led to progressively higher expected debt paths. (IMF, 2012c)

The strenuous economic adjustment effort has evoked several adverse socioeconomic effects.

The unemployment rate increased by 14.1 percentage points (EUROSTAT definition), whereas during the same period households at the lower end of the income distribution have comparatively lost ground amid a general income decline.

The European Commission's 2014 "Employment and social developments" survey indicates that the Greek labor market's shrinkage by approximately one million jobs from 2008 to mid-2014 has intensified the already high income inequalities of the pre-crisis era.

2. EMPIRICAL AND STATISTICS FINDINGS

The 2014 EC Scoreboard of key employment and social indicators (Joint Employment Report 2014) indicates that the risk of poverty in Greece has been on a dramatic rise and on a growing distance from the EU and EMU average (7.3 pps and 7.0 pps respectively in 2013 compared to 2012). (IMF, 2013a)

Along with exports of goods, tourism is expected to constitute one of the main sectors that will contribute towards the recovery and growth of the Greek economy in the coming years, by assisting in attracting investments, supporting other economic sectors and boosting employment. Tourism has already contributed decisively in this direction, since it recorded an impressive recovery in 2013, a year earlier than the economy overall, and it assisted significantly in intercepting the downward spiraling course of the Greek economy in the period 2008 - 2013. It then went on to post impressive results in 2014 and 2015. (IMF, 2013a)

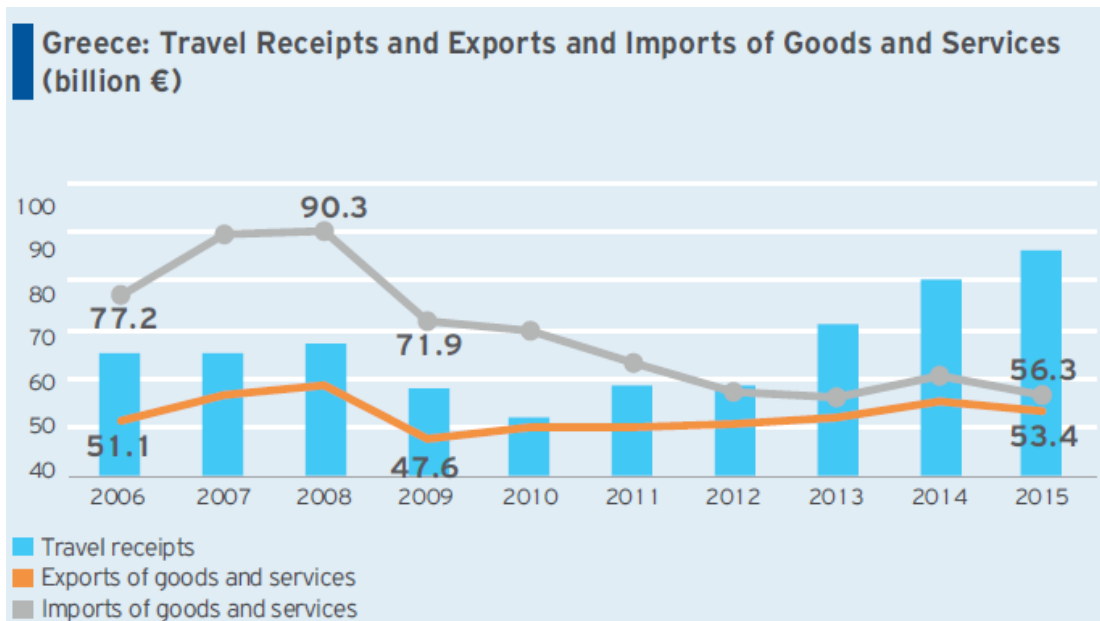
Non-performing loans soared during the period of the economic adjustment program to over 43% of total bank loans, affecting thousands of families and putting the stability of the financial system at risk. (Ramey, 2011)

In 2015 the need for a change in policy, with more fiscal space and emphasis on structural reforms, has become evident. On the other hand the financing of the economy has been restricted since ECB lifted the waiver of minimum credit rating requirements for Greek government bonds (February 2015) which had been previously allowing banks to use them in normal ECB refinancing operations. Greek banks have been thenceforth financing their needs through the more costly Emergency Liquidity Assistance (ELA) facility. It should be noted that since August 2015 Greek banks have reduced their dependence on ELA financing, as shown by the €18.5bn decrease of the upper limit. (IMF, 2013a)

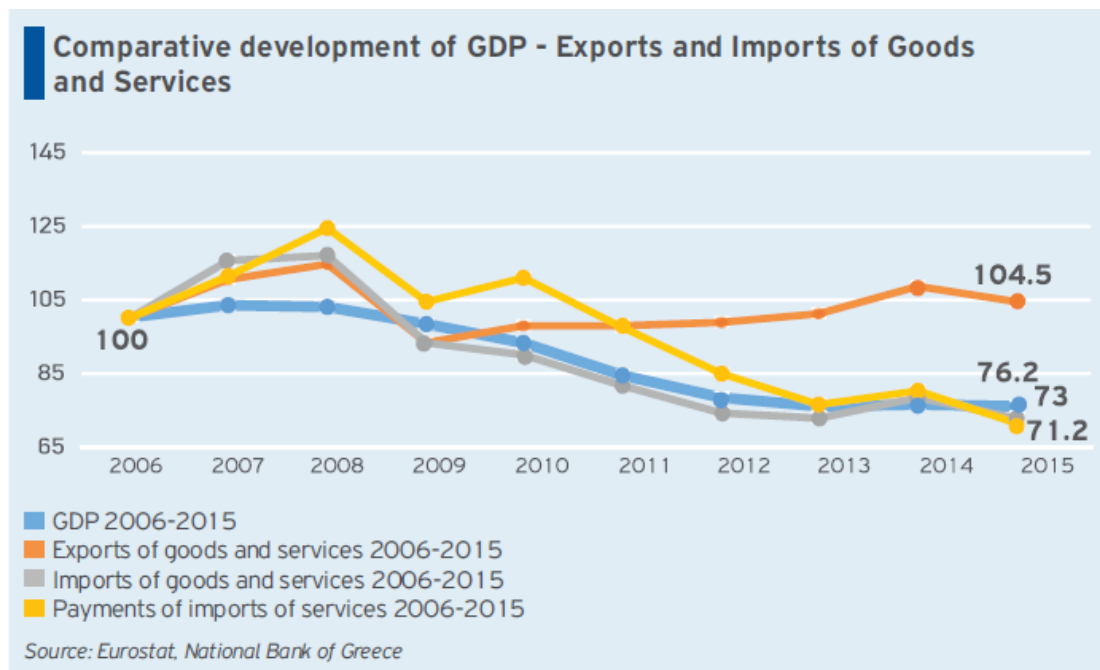
On 19 August 2015, a new three-year stability support program for Greece was approved by the European Stability Mechanism (ESM). The program includes a detailed fiscal policy path attached to the financial assistance. (National Reform Program, 2016)

The fiscal adjustment path set out in the agreement foresees primary balance targets of -0.25% of GDP in 2015, 0.5% in 2016, 1.75% in 2017, and 3.5% in 2018 and beyond. The trajectory of the fiscal targets is consistent with the expected growth rates of the Greek economy as it recovers from its deepest recorded recession. These targets shall be achieved through a combination of upfront fiscal reforms, an ambitious program to strengthen tax compliance and public financial management, beefing up the fight against tax evasion and structural reforms to underpin growth, while ensuring adequate protection of vulnerable social groups. (Sete 2016)

The Greek economy seems to have adapted to the terms set mainly by the imposition of capital controls and to have gained a large share of the previously lost confidence. This normalization and the relative stability suggested by the most recent data allow for optimism, though without allowing complacency given that major challenges putting the economy in a delicate balance still have to be faced. (IMF, 2013a)

Graph 1: Greece: Travel Receipts and Exports and Imports of Goods and Services (billion €)

Source: Sete 2016

Graph 2: Comparative development of GDP-Exports and Imports of Goods and Services.

Source: Sete 2016

The excessive tax burden, both in terms of direct and indirect taxes, continues to negatively affect the development of tourism and the economy in general.

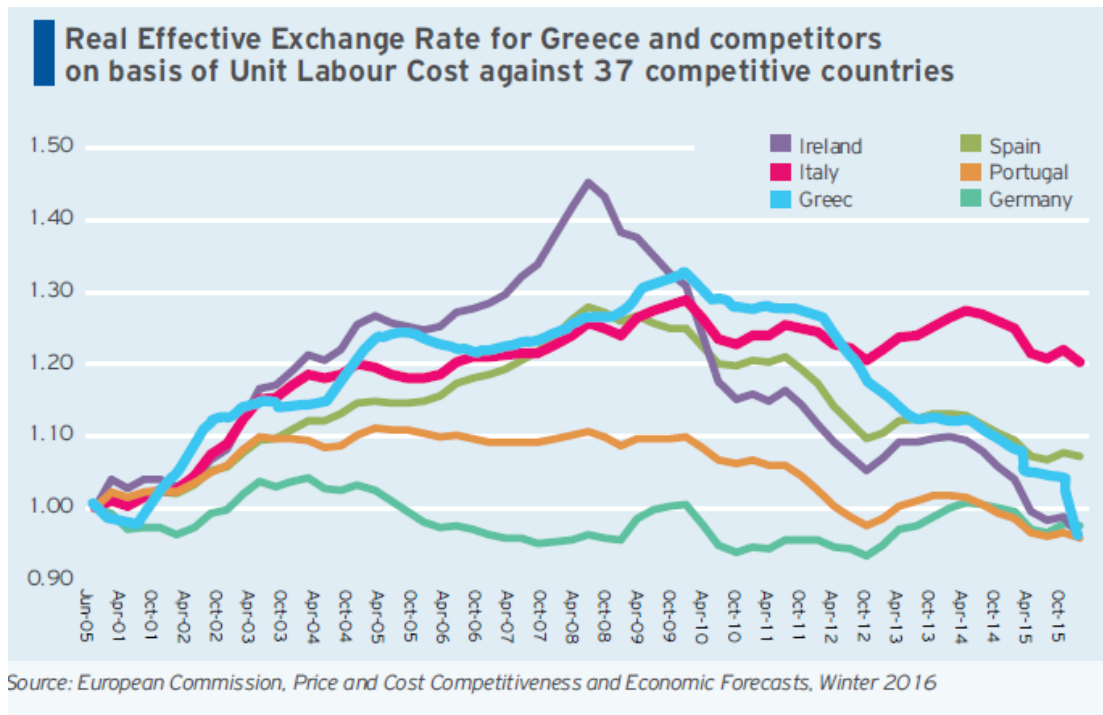
The significant competitiveness gains of Greek tourism arising from internal devaluation are significantly offset by this excessive tax burden.

Currently, the euro is trading at around 1.14 USD/EUR, remaining relatively devalued. It is estimated that it will remain at levels below 1.15 USD/EUR for the next two years. (Sete 2016)

The main euro zone markets, as well as those of Central Europe and the Balkans, benefit from the devalued Euro, the low oil prices and the amplified liquidity assistance policy of the ECB, exhibiting higher than expected growth rates, which result in increasing the disposable income of their populations, part of which is used for holidays abroad. (OECD ,2013)

According to SETE Intelligence calculations, the additional taxes of the last 12 months have undermined the competitiveness of the Greek tourism product by more than 10%, essentially undoing 50% of the recovered competitiveness achieved since the bailout memoranda were first implemented through very painful social and economic internal devaluation. (OECD ,2013)

Graph 3: Real Effective Exchange Rate for Greece and competitors on basis of Unit Labor Cost against 37 competitive countries



Source: Sete 2016

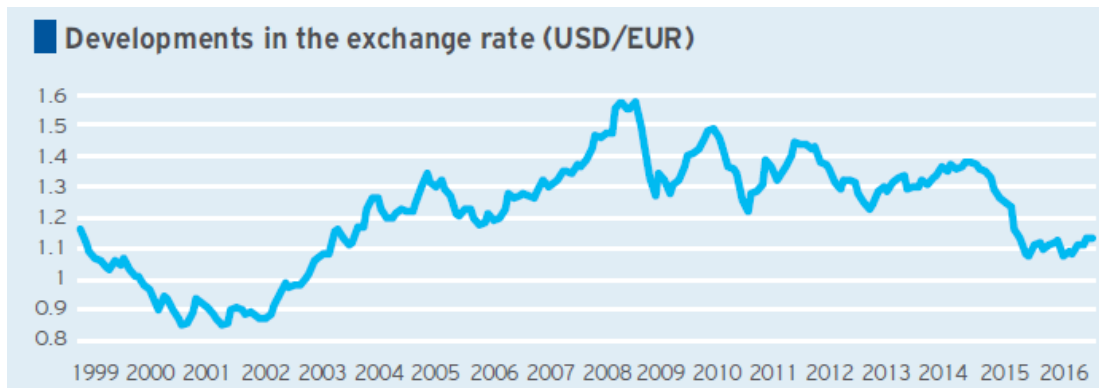
Graph 4: Comparative assessment of tax burden for tourism enterprises

Country	Total Grade
Cyprus	84
Croatia	81
Turkey	69
Spain	60
Greece	42

Source: INSFTF
Source: Sete 2016

3. A FRAMEWORK MODEL OF MACROECONOMIC PROSPECTS

Currently, the euro is trading at around 1.14 USD/EUR, remaining relatively devalued. It is estimated that it will remain at levels below 1.15 USD/EUR for the next two years. The main euro zone markets, as well as those of Central Europe and the Balkans, benefit from the devalued Euro, the low oil prices and the amplified liquidity assistance policy of the ECB, exhibiting higher than expected growth rates, which result in increasing the disposable income of their populations, part of which is used for holidays abroad. (Sete 2016)

Graph 5: Developments in the exchange rate(USD/EUR)

Source: Sete 2016

The – albeit delayed – completion of the 1st assessment and the disbursement of the final installment of €10.3 billion (€7.5 billion in the 2nd half of June 2016 and €2.8 billion in September 2016) are expected to have a positive impact on the Greek economy and tourism, both until the end of 2016 and in the years to come. The adjustment program implemented by Greece in the period 2010 - 2015 led to a significant average annual increase in exports of goods by 4.8%, despite the credit crunch experienced by Greek exporters compared to their international competitors. In the same period, the imports of goods recorded an average annual drop of -3.5%. The easing of the credit crunch is expected to boost/facilitate the economic activities of healthy businesses even more so. On the other hand, the export of services posted an average annual decrease of -0.9% in the period 2009-2015, mainly due to the large drop in the inflow of revenue from international transports (mainly shipping). On the contrary, in the period 2009-2015, travel revenue from abroad increased by 35.6%. (Sete 2016)

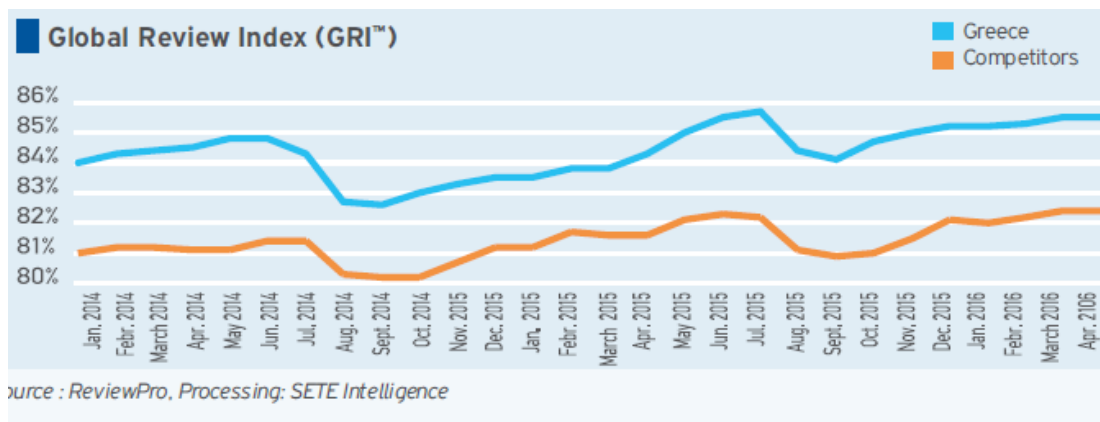
The GDP drop in the 2nd half of 2015 and the 1st quarter of 2016 could be considered temporary, given that normalcy in the banking system and the economy should be restored rapidly following the final completion of the 1st assessment of the 3rd memorandum. Naturally, due to the procrastination in the negotiations for concluding the 1st Assessment and the imposition of new excessive and unwarranted anti-growth fiscal and other measures so as to reach an agreement, it is currently expected that the increase in the GDP for 2016 will be 0.2% instead of 1.5%, which was the estimate had the 1st assessment been concluded on time and without the aforementioned measures. It is, however, important to note that the turmoil between September 2014 and July 2015 and the extreme burdening of the economy with new uncertainties and largely useless anti-growth measures, have impacted negatively on but not reversed the growth prospects of the economy, which had been evident since 2014. (Sete 2016)

Graph 6: Growth scenarios for the Greek economy

Source: Sete 2016.

Client satisfaction for provision of services in Greek hotels is – and has been for the last years – significantly higher compared to international competitor destinations.

Graph 7: Global Review Index (GRI).



Source: Sete 2016.

From many aspects, the geopolitical situation of the Eastern Mediterranean region and the crisis in the Russian-Turkish relations have had a positive impact, with increased tourist inflow. However, this was not the case in the 4th quarter of 2015, when tourist arrivals from main markets were down. The refugee issue had a negative impact on the 4th quarter of 2015 and continued to negatively affect tourist arrivals and pre-bookings in the 1st quarter of 2016. (Sete 2016)

The average per capita tourism expenditure dropped to €580 in 2015 from €590 in 2014 and €653 in 2013. (Sete 2016)

On the other hand, it is worth noting a) the remarkable stability of spend per night and b) its increase by 4.6% to €74 in 2015 after dropping in 2014. This means that the reduced expenditure per trip is due to shorter holidays by travelers, rather than lower daily expenses.

The aimed at increase in arrivals and revenues from foreign and domestic tourism in Greece will mainly be determined by the enrichment and diversification of the tourist product, as well as the growth rate of the supply of internationally competitive tourism services in Greece and to a smaller extent, the demand for tourism services, which is largely infinite for small countries such as Greece at times when the originating countries are experiencing positive growth rates. (Sete 2016)

Specifically, demand for tourism services in Greece is mainly determined by the entrepreneurial operation of the businesses supplying tourism services in the country in general and in every tourist area in particular. (Sete 2016)

Graph 8: Arrivals, overnight stays & revenues from Inbound Tourists

Countries	Arrivals	Overnights	Length of stay	Revenues (thousand €)	Av per capita tour. expe. (€)	Expenditure per over night stay (€)
Data 2015	26.114.200	188.012.000	7,2	14.125.800	541	75
Target 2021	34.800.000	250.000.000	7,2	19.600.000	563	78

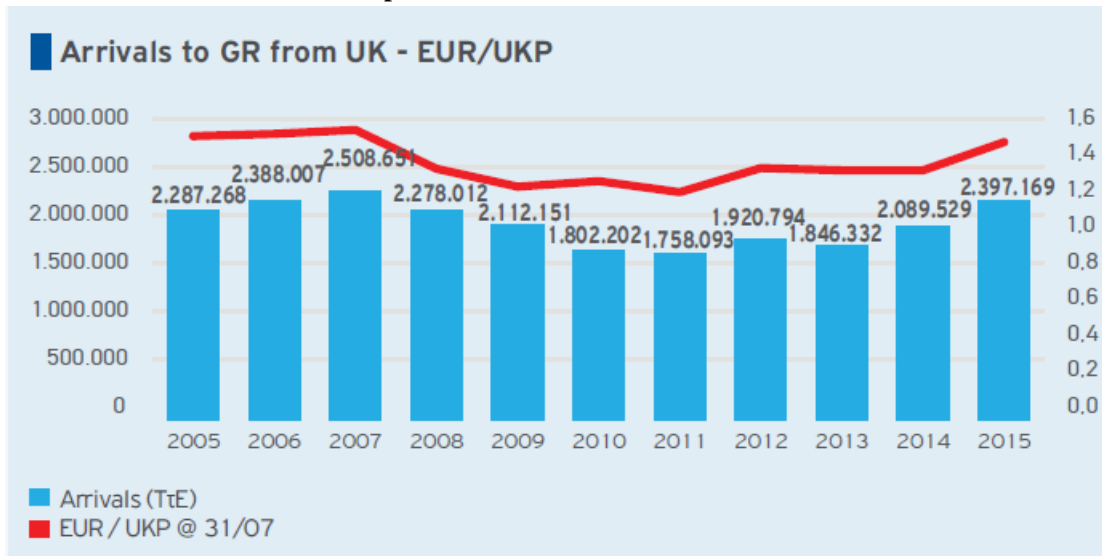
Source: Bank of Greece – SETE Intelligence estimates

Source: Sete 2016.

Given the referendum results for the Brexit, arrivals and revenues are expected to be negatively affected due to the observed uncertainty and the downward trend of the British pound. Around 50%/30% of the Brits who go on sun & sea holidays book them in the last two months/month. Other forms of non-seasonal leisure trips - such as urban and cultural tourism, as well as conferences, business meetings and incentive travel – are also expected to be negatively affected. (Sete 2016) The British market is of paramount importance for Greek tourism, given its size (2.4 million visitors / €2 billion

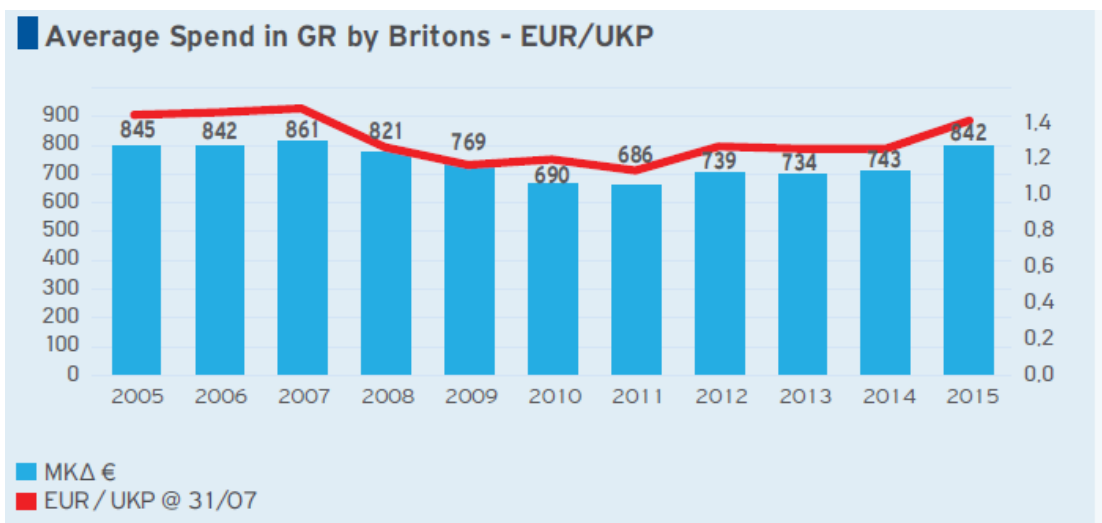
revenues in 2015) as well as the high growth rates recorded in 2016 based on the booking information at hand. (Sete 2016)

Graph 9: Arrivals to Greece from UK.



Source: Sete 2016.

Graph 10: Average spend in GR by Britons.



Source: Sete 2016.

4. CONCLUDING REMARKS

Travel & Tourism generated 401,000 jobs directly in 2015 (11.3% of total employment) and this is forecast to grow by 0.6% in 2016 to 403,500 (11.5% of total employment).

This includes employment by hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). It also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists.

By 2026, Travel & Tourism will account for 529,000 jobs directly, an increase of 2.7% pa over the next ten years. (WTO,2016).

The total contribution of Travel & Tourism to employment (including wider effects from investment, the supply.

By 2026, Travel & Tourism is forecast to support 1,095,000 jobs (28.0% of total employment), an increase of 3.0% pa over the period.

Money spent by foreign visitors to a country (or visitor exports) is a key component of the direct contribution of Travel & Tourism. In 2015, Greece generated EUR14.8bn in visitor exports. (WTO,2016).

In 2016, this is expected to grow by 2.2%, and the country is expected to attract 24,021,000 international tourist arrivals.

By 2026, international tourist arrivals are forecast to total 37,972,000, generating expenditure of EUR23.3bn, an increase of 4.4% pa.

Travel & Tourism is expected to have attracted capital investment of EUR2.7bn in 2015. This is expected to fall by 7.6% in 2016, and rise by 3.8% pa over the next ten years to EUR3.6bn in 2026.

Travel & Tourism's share of total national investment will rise from 16.5% in 2016 to 17.2% in 2026. (WTO,2016).

Leisure travel spending (inbound and domestic) generated 93.1% of direct Travel & Tourism GDP in 2015 (EUR22.5bn) compared with 6.9% for business travel spending (EUR1.7bn).

Business travel spending is expected to grow by 3.0% in 2016 to EUR1.7bn, and rise by 7.5% pa to EUR3.5bn in 2026.

Leisure travel spending is expected to grow by 0.8% in 2016 to EUR22.6bn, and rise by 3.7% pa to EUR32.7bn in 2026. (WTO,2016).

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