Athens, 3 July 1997

PRESS RELEASE

Foreign Exchange Policy and Tourism

The great decrease of international tourism in our country during the last two years, has caused intense concern, given that global international tourism and in particular Mediterranean tourism have recorded an increase. The unsatisfactory quality of our tourism product and mainly of the out-of-hotel services (infrastructure, additional tourism services) certainly plays a negative role in Greek international tourism. The interest of those involved in Greek tourism focused on the structural deficiencies of the tourism sector and their tendency to deteriorate. However, they cannot explain the sudden decrease in external tourist flows to our country, after the high increase recorded in 1994 (regardless of the reasons).

The present study of RIT examined whether and to what extent the significant decline of the past two years is a conjunctural phenomenon, a structural phenomenon or a phenomenon caused by the presence of other factors, such as e.g. the severe overvaluation of the drachma, without underestimating the importance of tourism product quality on long-term tourism demand. For this reason, the impact of the "hard" drachma policy on the Greek tourism sector was analyzed, as it was completely opposite to the policy of our main competitors Italy, Spain and Portugal. The national currencies of those countries were devaluated against the strongest currencies of the European Union.

The policy of the "hard" drachma had a negative impact on the competitiveness of the Greek economy, resulting in the deterioration of the trade balance and the balance of undeclared transactions and of course the reduction in the number of arrivals of foreign tourists. During the last two years 1995 and 1996 the number of arrivals decreased from 10,7 million in 1994 to 9,7 million in 1996[1], while the recorded tourism exchange decreased from 3.904,9 million $ in 1994 to 3.723,1 million $ in 1996.

The analysis of RIT regarding the impact of exchange policy on the performance of Greek tourism, in recent years, has shown that the demand for Greek tourism services by foreign tourists is sensitive to changes in the drachma exchange rate. The demand elasticity of the price of the tourism product, a measure of the degree of the mentioned sensitivity, was calculated equal to 1,0334, which means that a 10% drachma devaluation leads to a 10,334% increase in annual arrivals. This result agrees with the conclusions of relevant scientific studies regarding the demand for tourism services in other competitor countries (e.g. Italy, Spain). The first conclusion is that the observed decrease in the growth rate of arrivals and eventually the decrease in arrivals, are mainly due to the overevaluation of the drachma against the currencies of our main competitor countries (Italy, Spain and Portugal).

A second conclusion of the study was the fact that the consumption patterns of tourists have changed since the mid-1980s. Today, the tourist considers the purchasing power of the national currency more important than before.

A third conclusion of the study was that during the period 1992-1995 the loss in arrivals was calculated equal to 2,2 million (or 0,5% of market share in European South). This resulted in loss of tourism exchange revenue equal to 1,2 billion USD.

The fourth conclusion of the study was that the loss of tourism exchange revenue affected Greek economy in total, causing loss of income and employment positions. Cumulative loss of income is estimated to be $ 2.5 billion after the end of the multiplier effects.

[1] Resulting to the decrease of hotel occupancy rate, which was equal to 56% in 1995 compared to 60% the previous year.

A fifth main conclusion of the study is the existence of favorable prospects for the development of Greek tourism, under the following conditions:

- qualitative and quantitative improvement of Greek tourism infrastructure,
- preparation for the development of East European economies and
- more flexible exchange policy regarding the national currencies of competitor countries (i.e. lira, peseta and escudo).

Given these conditions, it was estimated that tourism flow may range between 11,7-12,6 million annual arrivals in 2000, and between 14,0-14,9 million arrivals in 2005. It was also estimated that if the external value of the drachma is fully adjusted by 2000 and the quality of Greek tourism product is improved, arrivals in 2005 are likely to reach 16 million and tourism exchange (adjusted) to $ 15 billion.

Hotel capacity can handle additional demand without significant additional investments in hotel beds, which means that policy should aim to the modernization and upgrading of existing capacity.

The general conclusion of the study is that the demand for Greek tourism product is sensitive to changes in the drachma exchange rate. Therefore, a reasonable devaluation of drachma compared to the national currencies of Italy, Spain and Portugal is expected to have a favorable effect on Greek tourism. The expected benefits are estimated to have an impact on other sectors of the Greek economy if income policy addresses the inflation and the inflationary effect of exchange rate adjustment.