

THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON TOURISM IN CYPRUS

Katarzyna Podhorodecka
University of Warsaw, Poland

INTRODUCTION

The global economic crisis significantly weakened the growth rate of the global tourism sector. Economic crisis consists of an economy collapsing, and the transition from a development phase to one of recession [Bremond et al. 2005]. Changes in prosperity are a natural phenomenon for an economy and the pace of economic growth in the long term is differentiated in time and space [Balcerowicz, Rzońca 2010]. Economic cycles are regular, and when a collapse phase occurs, unemployment rises. A mere two consecutive quarters of declining GDP justifies discussion of a recession hitting the economy [Bremond et al. 2005]. At the beginning of the twentieth century, John Maynard Keynes explained the occurrence of cycles, and recommended the introduction of “state intervention” during recession to prevent fluctuations in the economy [Czaja 2009].

Not all island countries which derive profits from tourism have reacted to the global economic crisis in a similar manner. There was a small group of islands which did not register declines in inbound tourism (e.g. Seychelles). There were also some island countries which could not climb out of the recession caused by the crisis (e.g. Saint Vincent and the Grenadines). Cyprus was among the countries and dependent territories that suffered significantly from the global economic crisis. A decline in the number of tourist visits was recorded both in 2008, at the beginning of the global economic crisis, and also in 2009. However, visitor numbers rebounded in subsequent years, returning to pre-crisis levels.

Cyprus is a destination European tourists appreciate. It is an island with an area of more than 9.3 thousand km² and a population of 858 thousand persons (in 2013). The state has been independent since 1960, and in 2004 it became a member of the European Union, which significantly increased inbound tourism. The northern part of the island is governed by Turkey and is not recognised internationally. The island’s geological origins are volcanic and the climate is defined as subtropical marine [Wróblewska 2009], with

warm summers and relatively mild winters (www.visitcyprus.com)¹. While high temperatures are recorded particularly during the tourist season, there is rainfall in the cooler months (October to May), driving down tourism. The island is full of natural beauty [Wróblewska 2009]. Cyprus consists of five major tourist regions: Famagusta, Paphos, Limassol, Larnaca and Nicosia. Each offers a wide range of tourist services and strives to attract different types of tourism [Cyprus Tourism Market Report 2015]. Cyprus is also an area with a rich cultural heritage and considerable religious diversity: 78% of the population is Greek Orthodox while 18% practices Sunni Islam [Buczowska, Pajsert 2009].

OBJECTIVES, HYPOTHESES AND METHODS

The aim of the article is to examine if, during the global economic crisis, there was a correlation between economic growth on the emitting markets of tourism to Cyprus and the increase in the number of tourists from those markets in different years. Another of the article's objectives is to determine whether the promotional activities undertaken during the global economic crisis by the National Tourism Organisation of Cyprus and the tourist administration were efficacious. Finally, the research confirms that there was a correlation between the increase in the number of foreign tourists and economic growth during that period.

The following hypotheses were set forth: it is assumed that during the global economic crisis there was a strong correlation between economic growth on the emitting markets and the increase in the number of tourists from these markets each year. Additionally, it was assumed that measures taken by the tourist administration during the global economic crisis would bring the results it desired, such as the priority markets in the coming years sending greater numbers of tourists to Cyprus (Priority markets are emitting countries identified as being important for Cyprus to attempt to win over as a tourist destination). It was also assumed that there would be a strong correlation between the increase in the number of foreign tourists and economic growth during the period analysed (2008–2011). Analysis of the literature, data analysis, Spearman's rank correlation and Pearson's linear correlation were used to verify these hypotheses.

DEVELOPMENT OF TOURISM IN CYPRUS

The tourism sector globally has good growth prospects, a fact statistics on international travel bears out. The number of trips taken increases yearly by 3–5%, with setbacks occurring only as a result of crisis situations. The global economic crisis of 2008–2009 brought one such situation, causing the number of trips taken in the world to fall. Many countries are strongly dependent on tourism, especially those with island areas located in the tropical zone and the islands of the Mediterranean Sea, such as Cyprus. In the 1960s,

¹ Temperatures during the day in the warm season in the central part of the country average 29°C. Water temperature is 22°C in June and 27°C in August. Cyprus receives up to 11.5 h a day of sunlight during the tourist season (www.visitcyprus.com, accessed: 15.01.2016).

Cyprus was visited by approximately 20 thousand foreign tourists annually. By 1974 the number had climbed to 2.2 million, and another period of rapid growth in foreign tourist visits to Cyprus was observed in the 1980s [Sharpley 2000]. Between 1980 and 1990, the average growth in the number of foreign tourist arrivals to the island was 16%. During that period revenues from tourism increased six-fold (from 203 million USD to 1.2 billion USD), and per capita GDP in Cyprus increased alongside the development of its tourist function. Cyprus is currently visited by approximately 2.5 million tourists a year, the average one of whom spends approximately 800 USD [Wróblewska 2009].

The main emitting markets to Cyprus are countries in Western Europe. A third of the visitors are British, followed by Swedes and Germans. The number of tourists varied in the years 2000–2013, with 2.6 million coming in 2000, and a fewer 2.4 million in 2002. However, the numbers swung back and began to climb in the years 2003–2005, making up for the previous decline. In 2005 the number of tourists reached 2.6 million, followed by a slight fluctuation in 2006–2008. Due to the global crisis, the most significant decrease in the number of foreign visitors to the island – like to the majority of islands – occurred in 2009. Between 2010 and 2013, there was a steady increase in the number of visits and in 2013 it again reached the 2.6 million mark it hit at the beginning of the century. Figure 1 presents the number of foreign tourists that came to Cyprus in the years 2000–2013. The significant decrease in the number of arrivals in 2002 was likely the result of the worldwide fear of traveling due to terrorist attacks on the World Trade Center in September 2001. Unfortunately the number of tourists has not revisited, the highs it reached in 2001 since those attacks (almost 2.7 million)².

Haritini Tsangari [2012] pointed out that strong competition between tourist destinations, brought to light during the global economic crisis, had a negative impact on tourism in Cyprus, due mainly to the brutal price wars between Greece and Cyprus. Tsangari

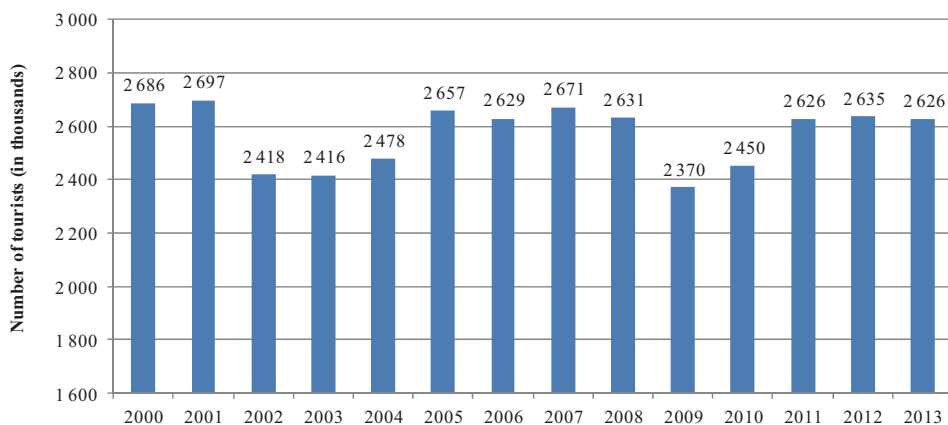


FIG. 1. Foreign tourist arrivals in Cyprus in 2000–2013

Source: the author's own elaboration on the basis of UNWTO database, available at www.unwto.org [accessed: 10.09.2015].

² Economic crisis befell Turkey in 2001 [Wang 2009, after Okumus et al. 2005].

also confirmed the assumption that tourism in Cyprus is also dependent on what happens in the emitting markets, including the UK, Germany, Norway, and Sweden [Tsangari 2012]. Russia, Greece, Switzerland and Israel are likewise important source markets of tourism to Cyprus. Tsangari's research also proved that among the eight major competitors of Cyprus – Spain, Portugal, France, Italy, Turkey, Malta and Croatia – only the price relationship between Greece and Cyprus affected the level of tourist traffic and the value of tourist expenditures. Cyprus' dependence on prices in Greece was predictable as both tourist destinations are based on the same type of tourism ("3S tourism")³. Both are perceived by tourists as offering warmth and hospitality complemented by a rich cultural heritage [Tsangari 2012].

Accommodation in Cyprus includes mainly hotels, hostels, hotel apartments, holiday villages, agrotourist and camping facilities, and guest houses. In 2014, There were 798 total accommodation facilities with a total of 87.2 thousand beds in Cyprus⁴ [Cyprus Tourism Market Report 2015].

HOW TOURISM TO CYPRUS RESPONDED TO THE GLOBAL ECONOMIC CRISIS

Tourist island areas can be divided into four groups based on how they reacted to the global economic crisis. The first group contains island countries whose tourist visit numbers did not decline as a result of the global economic crisis. The second group consists of territories which after several years had a better situation than before the crisis movement. The third group is made up of countries and dependent territories whose tourism economy recovered within three to four years after the global economic crisis. Cyprus is in the third group, among other island regions that recorded a slight slump in incoming tourism but returned within three to four years to 2008 levels. However, it is in the first group⁵ in terms of its share of tourism in GDP, which, at 11.6%, may be defined as significant (11.6%). Of course, many island areas have a much higher value⁶. The fourth group are island territories whose tourist economy was left mired in a deep recession following the global economic crisis.

Figure 2 presents changes in the number of visitors and the change in Cyprus' GDP in the years 2000–2013. The trend lines clearly diverge. This shows the problem of large declines in GDP in recent years in Cyprus. The gross domestic product declined 2.4% in 2012 and 5.4% in 2013.

Calculated with Spearman's rank correlation, the correlation ratio was 0.336 for changes in the number of visitors to Cyprus and changes in Cyprus' GDP value over the

³ 3S tourism (sun, sand and sea) – the term for leisure tourism, mainly passive and for organised groups in tourist resorts, located at the seaside with a climate that allows for sunbathing on the beach and swimming in the sea.

⁴ Dated June 30, 2014.

⁵ In this group the share of GDP from revenues of incoming tourism is estimated at between 10 and 20%.

⁶ In terms of the human development index (HDI) Cyprus is one of the most developed islands: the HDI was 0.845 in 2013; according to the UNDP, this proves a very high standard of living.

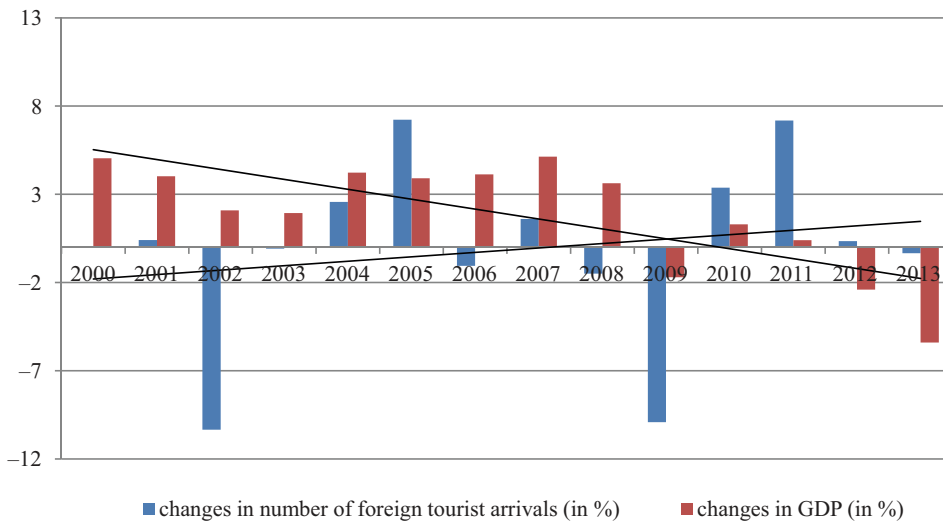


FIG. 2. Changes in the number of foreign tourist arrivals and changes in GDP in Cyprus in 2000–2013 with a trend lines

Source: the author's own elaboration on basis of UNWTO database, available at www.unwto.org [accessed: 10.09.2015] and World Bank database, available at www.worldbank.org [accessed: 10.09.2015].

2000–2013 period. This is a positive, low but noticeable and statistically significant correlation. At the beginning of the global economic crisis, in 2008, the number of foreign tourists visiting Cyprus decreased by 1.5%, while economic growth came in at 3.6%. In 2009, there were 10% fewer visits, while GDP fell by 1.7%. 2010 saw tourist traffic again grow, this time by 3.4%, while economic growth came in at 1.3%. In 2011 the loss in the number of tourists coming to the island was made up for (with a 7.2% increase in the number of visitors, and a much more modest 0.4% rise in GDP).

According to the World Travel and Tourism Council (WTTC), Cyprus' tourism industry is responsible for approximately 7% of the country's GDP. The tourism economy, which also takes into account the tourism multiplier effect, accounts for 17% of GDP. If, however, the tourism-induced effect is included in the estimation, tourism was behind a full 22% of the island's GDP in 2014 [Travel & Tourism Economic Impact 2015]. Unfortunately, the data on the labour market in tourism in Cyprus provide little cause for enthusiasm. Employment in the tourism industry decreased significantly and did not return to pre-crisis levels (Fig. 3). According to the WTTC, 31 thousand people were employed in the industry in 2007, a number that fell to 27 thousand a single year later, and all the way to 23 thousand in 2009. In 2010 the figure bounced back to 25 thousand. Although the number of foreign tourists returned to pre-crisis levels, the same cannot be said of employment – the crisis seems to have permanently reduced employment. Analysis of the relative employment figures – namely, the share of tourism-related employment to total national employment – shows that the share of the tourism industry in GDP declined to 6.5% can be observed in 2009–2010 (it was 7.5% in 2008). 2011 and 2012 witnessed a return to 7% of GDP while in 2013 it was 8%. It is worth noting that unemployment

in Cyprus has grown very dramatically in the last few years: the number of unemployed increased by 121% between 2009 and 2014, and the 2014 unemployment rate came in at 16.4% [Cyprus Tourism Market Report 2015].

Figure 4 presents the value of foreign tourist spending and day visitors visiting Cyprus in the years 2000–2013. Cyprus is included in the group that did not return the volume of expenditure before the global economic crisis. In 2013 expenses were 10.5% lower than in 2008.

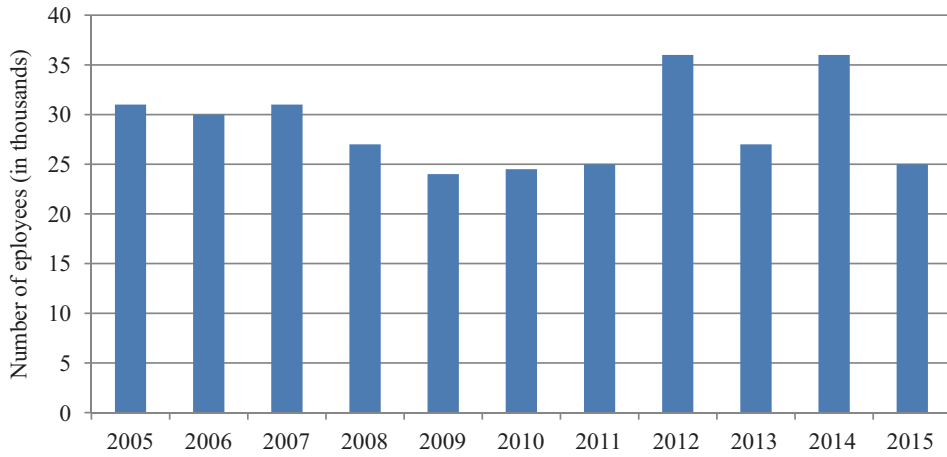


FIG. 3. Employment in the tourism industry in 2005–2015

Source: the author's own elaboration on the basis of Travel & Tourism Economic Impact [2015].

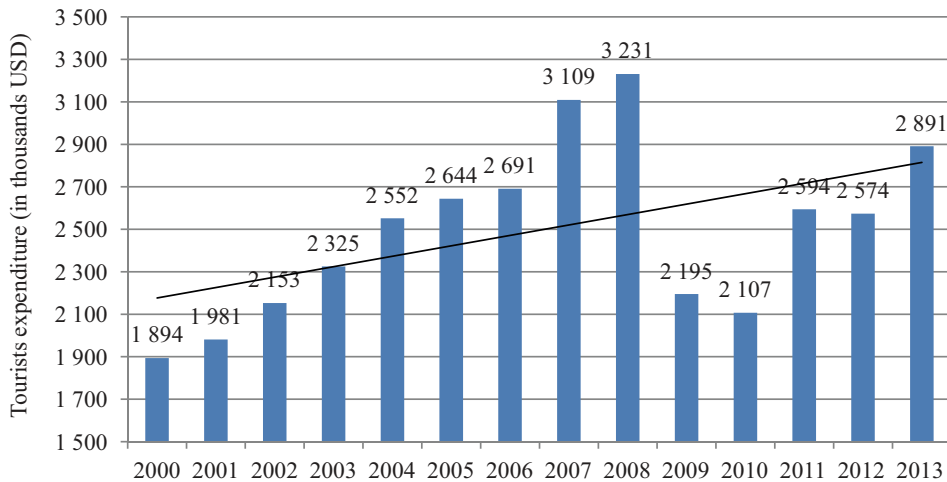


FIG. 4. Expenditure of foreign tourists with a trend line, 2000–2013

Source: the author based on: www.unwto.org [accessed: 10.09.2015], Compendium... [2003], Compendium... [2009].

Calculated with Pearson’s correlation, the correlation ratio was 0.359 (n = 81) for the changes in the number of visitor arrivals to Cyprus and changes in the value of the GDP in the sending markets in 2008–2011. This is a positive, low but noticeable and statistically significant correlation. The changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin from 2008 to 2011 are shown in Figures from 5 to 8.

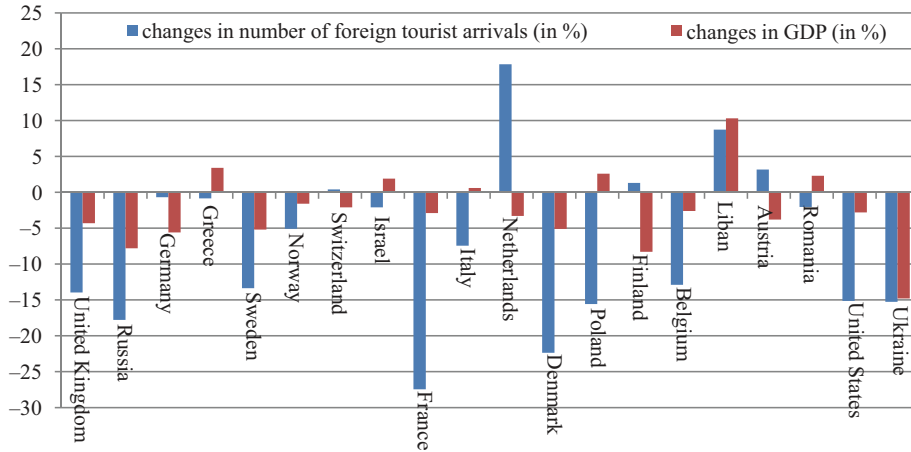


FIG 5. Changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2008

Source: the author’s own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

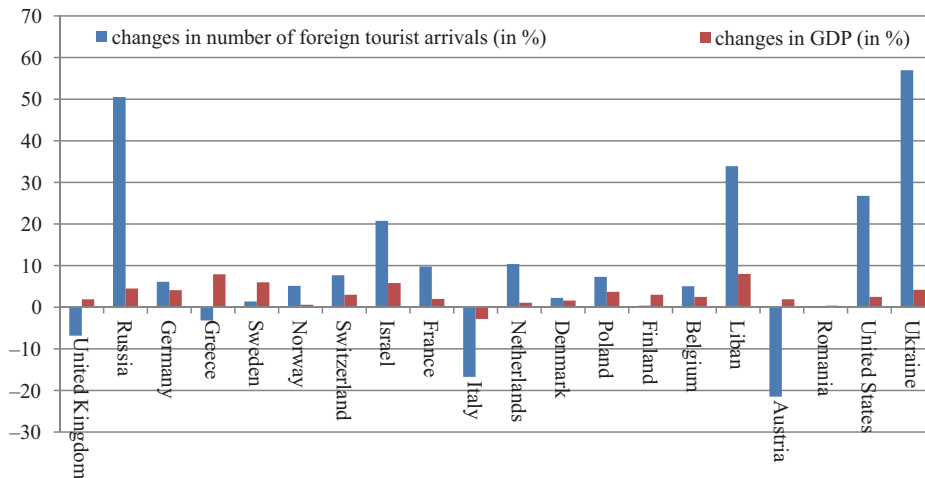


FIG 6. Changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2009

Source: the author’s own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

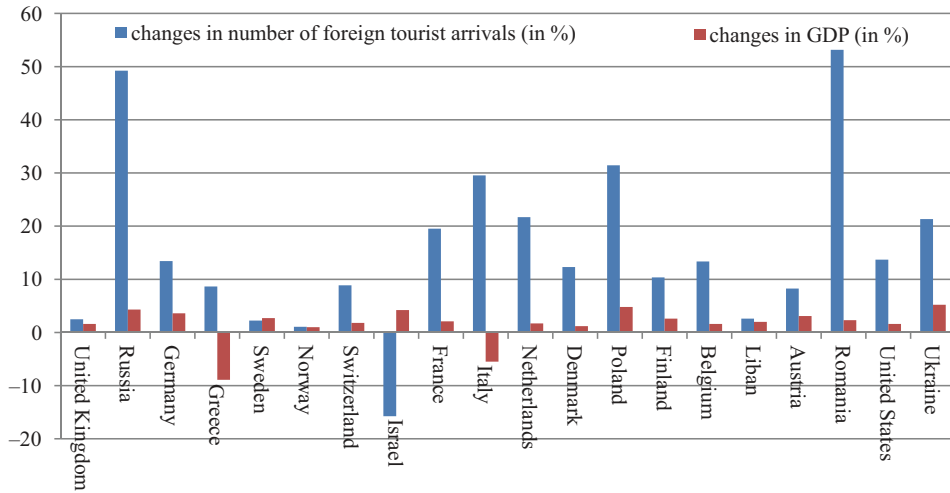


FIG. 7. Changes in foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2010

Source: the author's own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

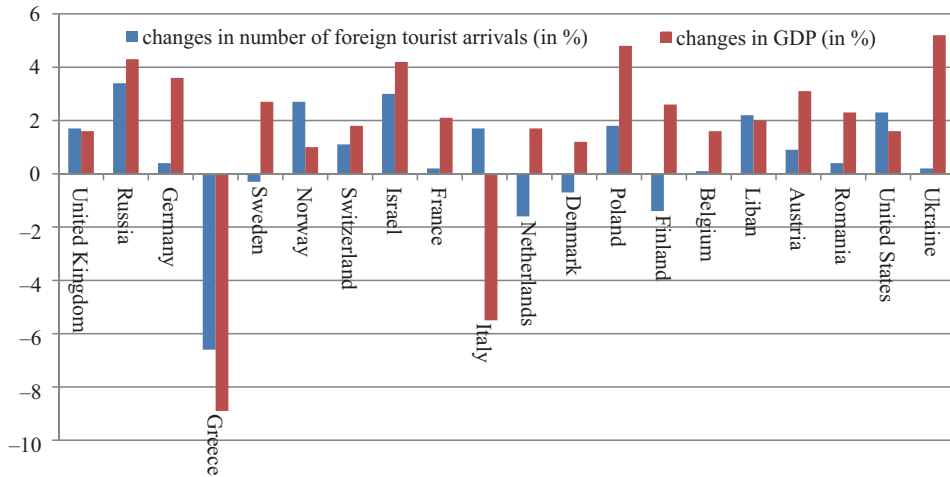


FIG. 8. Changes of foreign tourist arrivals in Cyprus from main markets and changes in GDP in country of tourist origin in 2011

Source: the author's own elaboration on basis of data about tourist movement, available at www.mof.gov.cy [accessed: 13.12.2015], data on changes in GDP from World Bank, available at www.worldbank.org [accessed: 13.12.2015].

Additionally, Cyprus' role as a tax haven for many European Union countries was important for the island's local economy. There were 130 banks operating in Cyprus in 2014. However, a new law requiring the value of deposits exceeding 100 thousand EUR to be taxed took its toll on the island's reputation as a tax haven, and may also have contributed to the lower tourist traffic from European countries during the crisis.

TOURISM DEVELOPMENT STRATEGY IN CYPRUS AND THE GLOBAL ECONOMIC CRISIS

At the end of the 1990s revenues from tourism in Cyprus were equivalent to 40% of the island's exports. Tourism began to be seen as a growth engine of the Cypriot economy, though it is seasonal: 25% of tourist visits occur during the tourist season, while 16% occur beyond the tourist season. A decrease in length of stays on the island has also been recorded. Two strategic documents have been issued during the past 15 years: *Strategic Plan for Tourism Development 2003–2010* and *Tourism Strategy 2011–2015*. The main objectives of the latter document were to increase the number of tourists, raise the quality of accommodation facilities and improve price competitiveness. As the development strategy emphasises, Cyprus needs to develop specialised tourism products, because there are currently too few interesting places for tourists [Yiannakis 2009 after Strategic Plan for Tourism 2000–2010]. One proposal for diversification is to develop tourism based on a variety of sports [Yiannakis 2009].

The strategy for the years 2003–2010 indicated that high priority markets for Cyprus included the United Kingdom, Russia, Greece, Germany, Ireland, and France. Medium priority was given to countries in the Persian Gulf and Middle East, Israel, Belgium, Sweden, and Austria [Strategic Plan for Tourism Development 2003–2010]. The market segments the strategy laid out as essential for development were: leisure tourism⁷, cultural tourism, business tourism, wedding tourism, sightseeing cruises, active tourism and nautical tourism.

The Cyprus Tourism Organisation currently has 15 foreign offices spread across the UK, Germany, France, Sweden, Greece, Italy, Switzerland, the Netherlands, Russia, Israel, Poland, the United Arab Emirates, and Ukraine (www.visitcyprus.biz, accessed: 15.01.2016). According to the Market Research and Consulting Study for the Development of the German Market to Cyprus, the German market is assigned the highest priority⁸. Its status is also reflected in the budget for promotional campaigns. Leisure tourism is very popular in Germany [Market Research... 2004]. The results of a survey conducted among tourists by PricewaterhouseCoopers confirmed the high quality of tourist services in Cyprus [Opening... 2013]. The study also confirmed that the main reason for travelling to Cyprus is to partake in the island's leisure tourism and cultural tourism.

Table presents the changes in the number of tourist arrivals from the major priority markets in 2009–2012 and the measures taken to develop inbound tourism.

⁷ Leisure tourism is called sun and sea plus in the document.

⁸ The German market is "a market given absolute priority".

TABLE. Changes in the number of foreign tourist arrivals from main markets (changes 2012/2009) (top 10 countries)

Country	Market			Actions concerning inbound tourist movement	
	below 0%	0–5%	more than 5%	Is there a Cyprus Tourism Organization agency in the country?	high priority markets (++) average priority markets (+)
United Kingdom	–10%			+	++
Russia			+219%	+	++
Germany			+16%	+	++
Greece		+1%		+	++
Sweden			+8%	+	+
Norway			+15%		
Switzerland			+21%	+	+
Israel			+26%	+	
France			+37%	+	++
Italy			+121%	+	
All markets	+15%				

Source: the author's own elaboration on the basis of Strategic Plan for Tourism Development [2002], available at www.mof.gov.cy [accessed: 13.12.2015].

The data on new markets reveals that, paradoxically, the crisis in Ukraine and Russia did not adversely affect the number of foreign tourists coming from those markets (www.etabornews.com, accessed: 16.01.2016). Promotional activities there also involved negotiations with the airline companies, which were encouraged to create new flight connections to the key markets.

According to the World Tourist Organization data, the Cyprus Tourism Organisation's budget was 79.9 million EUR in 2008 and increased to 102 million EUR in 2009 [Budgets of National Tourism Organizations 2008–2009, 2010]. The National Tourism Organization of Cyprus had 126 employees in 2007 and 113 in 2008 and 2009. The number was subsequently reduced despite the fact that the Organisation's budget rose. This improved financial capacity and allowed for investment in promotional campaigns. In 2009, 745 thousand people per month visited the national promotional websites, which makes it an important channel of communication with potential customers [Budgets of National Tourism 2010].

CONCLUSIONS

Cyprus is an expensive tourist destination, but one that becomes competitive when uncertainty hits other tourist markets (e.g. due to the risk associated with traveling to Arab countries, terrorist attacks), as the island is considered to be a safe destination for tourist trips. However, the protracted global economic crisis (2009–2011) limited the number of foreign tourists to the island. The article sought to answer the following questions: Was it possible during the global economic crisis to observe a relationship between changes

in GDP of emitting markets and changes in the number of tourists from these markets? Did the measures taken by the tourist administration of Cyprus in the course of the economic crisis bring the results expected? To answer that question, I sought to determine whether the priority markets recorded an increase in the number of tourist arrivals during the crisis. Finally, was there a link between changes in the number of foreign tourists and changes in GDP in the years 2000–2014.

The hypotheses were verified in the article and only a weak correlation between economic growth on the emitting markets and the increase in the number of tourists from these markets in the years 2008–2012 was proved. In addition, the measures taken during the global economic crisis by the tourist administration did not always bring the results it desired. For example, in 2009–2012, there was a decrease in the number of tourist visits from the United Kingdom, which was highlighted as a high priority market in the *Strategic Plan for Tourism Development 2003–2010*. Greece, also a priority market, registered an increase of only 1% in the number of visitors for the same three years. On the other hand, the number of people visiting from Norway actually increased in the same period, even though it was neither a high nor medium priority market, and there was not a single representative of the Cyprus Tourism Organisation in the country. The last hypothesis has been partly confirmed: there was only a weak correlation between the increase in the number of foreign tourists and economic growth in the years 2000–2013, and not a strong one, as previously assumed.

REFERENCES

- BALCEROWICZ L., RZOŃCA A., 2010. Zagadki wzrostu gospodarczego. Siły napędowe i kryzys – analiza porównawcza (The riddles of economic development. The main forces of development and crisis – a comparative analysis), C.H. BECK, Warszawa (in Polish).
- BREMOND J., COUET J.F., SALORT M. M., 2005. Kompendium wiedzy o ekonomii (A compendium of economic knowledge), Wydawnictwo Naukowe PWN, Warszawa (in Polish).
- BUCZKOWSKA K., PAJSERT E., 2009. Możliwości i konieczność rozwoju turystyki polonijnej na Cyprze w oparciu o historię podróży i życie Polaków na wyspie. Projekty tras turystycznych (The possibilities for and need to develop Polish tourism on Cyprus based on the history and travels of Poles on the island. The tourist routes project), Turystyka Kulturowa 3 (in Polish).
- Budgets of National Tourism Organizations 2008–2009, 2010. World Tourism Organization, European Travel Commission, Madrid, Brussels.
- Cyprus Tourism Market Report. A summary of the significant factors and major drivers of tourism in Cyprus, 2015. KPMG, Cyprus.
- CZAJA I., 2009. Cykl koniunkturalny w szkole austriackiej (The business cycle in the Austrian school) (in:) R. Żelazny (ed.), Koniunktura gospodarcza a funkcjonowanie rynków (Economic situation and functioning of markets), Prace Naukowe Akademii Ekonomicznej w Katowicach, Wydawnictwo Akademii Ekonomicznej, Katowice, 27–38 (in Polish).
- Market Research and Consulting Study for the Development of the German Market to Cyprus, 2004. IPK, International World Tourism Marketing Consultant GmbH.
- OKUMUS F., ALTINAY M., ARASLI H., 2005. The impact of Turkey's economic crisis of February 2001 on the tourism industry in Northern Cyprus, *Tourism Management* 26, 95–104.

- Opening the vault of tourism in Cyprus, 2013. PricewaterhouseCoopers, retrieved from <https://www.pwc.com.cy/en/publications/assets/cyprus-tourism-study-pwc-eng.pdf> [accessed: 16.01.2016].
- SHARPLEY R., 2000. The influence of the accommodation sector on tourism development: lessons from Cyprus, *Hospitality Management*, 19, 275–293.
- Strategic Plan for Tourism 2000–2010, 2000. Cyprus Tourism Organization, Nicosia.
- Strategic Plan for Tourism Development 2003–2010, 2002. Cyprus Tourism Organization, Cyprus.
- Tourism Strategy of 2011–2015, 2011. Cyprus Tourism Organization, Cyprus.
- Travel & Tourism Economic Impact 2015, Cyprus, 2015. World Travel & Tourism Council, London.
- TSANGARI H., 2012. Determinants of Tourism for “Sun and Sea” Cyprus, *European Research Studies*, 15, 3, 161–183.
- WANG T., 2009. The impact of crisis events and macroeconomic activity on Taiwan’s international inbound tourism demands, *Tourism Management*, Elsevier, 30, 75–82.
- WRÓBLEWSKA M., 2009. Rynek turystyczny Cypru (The tourism market of Cyprus), *Akademia Wychowanie Fizyczne im. Bronisława Czecha w Krakowie*, retrieved from www.wtir.awf.krakow.pl/pdf/studenci/strony_st/projekty/cypr/maria_wroblewska.pdf [accessed: 16.01.2016].
- YIANNAKIS O., 2009. Past, Present and Future Perspective of Sport Tourism in Cyprus, *Physical Culture and Sport Studies and Research* 46, 1, 268–275.

Summary. The Global economic crisis had an impact on tourism movement all over the world and especially on island territories. However, some island territories coped better with the effects of the crisis than others. Cyprus was one that saw tourists visits return to pre-crisis levels. The main aim of the article was to examine how Cyprus dealt with the global economic crisis. Three questions were here posed: First, is there a correlation between the changes in the GDP growth rate in the main markets that send tourists to Cyprus and the changes in the number of tourist arrivals from these markets? Did the actions taken by the National Tourism Administration and National Tourism Organisation, during the global economic crisis, increase the number of tourist visits to the island? Was there, during the period analysed, a correlation between foreign tourists arrivals and Cyprus’ GDP growth rate? The methods used in the article included statistical analysis as well as analysis of the literature and of strategic documents. A correlation between the changes in GDP from the main markets and the number of tourists visiting Cyprus from these markets was observed. Moreover the actions taken by the National Tourism Administration were only partly effective. The correlation between the changes in foreign tourist arrivals visiting Cyprus and the changes in Cyprus’ GDP was estimated as a weak.

Key words: Cyprus, tourism economy, global economic crisis

JEL: L83, Z3, P25

Corresponding author: Katarzyna Podhorodecka, University of Warsaw, Faculty of Geography and Regional Studies, Institute of Global and Regional Studies, Geography of the World Unit, Krakowskie Przedmieście 30, 00-927 Warsaw, Poland, e-mail: kpodhorodecka@uw.edu.pl