



# Industry Pulse Report: Tourism

2023



# Industry Pulse Report Cyprus Tourism

2023

- ▶ How is the tourism sector recovering in the post-COVID era?
- ▶ How is the War in Ukraine affecting the tourism sector?
- ▶ What is the sentiment of key sector stakeholders regarding the future outlook?

# Foreword

It is encouraging to see that the Cypriot tourism sector experienced a strong rebound in 2022, in line with other destinations in the Southern Mediterranean region. The promising trend was mainly driven by unleashed pent-up demand following the lifting of pandemic-related travel restrictions. There is of course still uncertainty and challenges facing the sector as a result of geopolitical conflicts, a weaker economic environment, staff shortages, inflationary pressures and increased costs.

The recovery of the Cyprus tourism sector will continue in 2023 and potentially reach 2019 levels in terms of tourist arrivals. However, lingering war-related challenges keep pushing different stakeholders to redefine their strategies. Attention is now given to bolstering the sector's resilience by penetrating new tourist feeder markets, enhancing the quality of our offering, and further strengthening existing strong markets and relationships with key stakeholders to mitigate the loss of the Russian and Ukrainian markets.

This second edition of our Tourism Industry Pulse Report presents the most recent sector developments in Europe and Cyprus. It also consolidates and presents insights from interviewing key public and private sector stakeholders on the key factors and challenges expected to influence tourism recovery and the sector's prospects.

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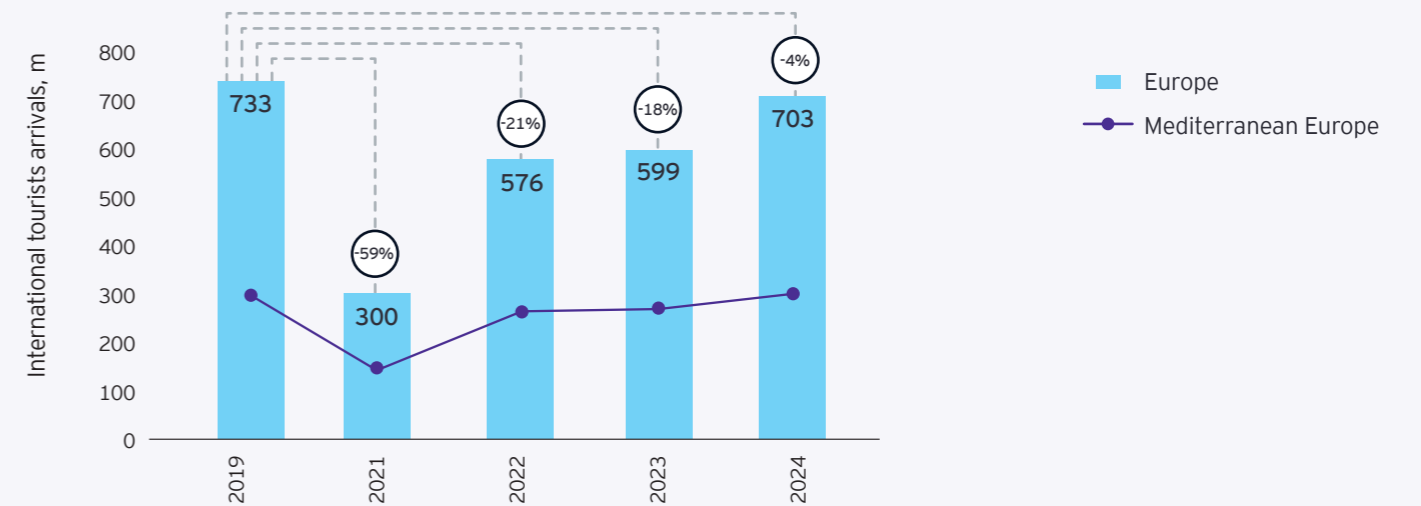
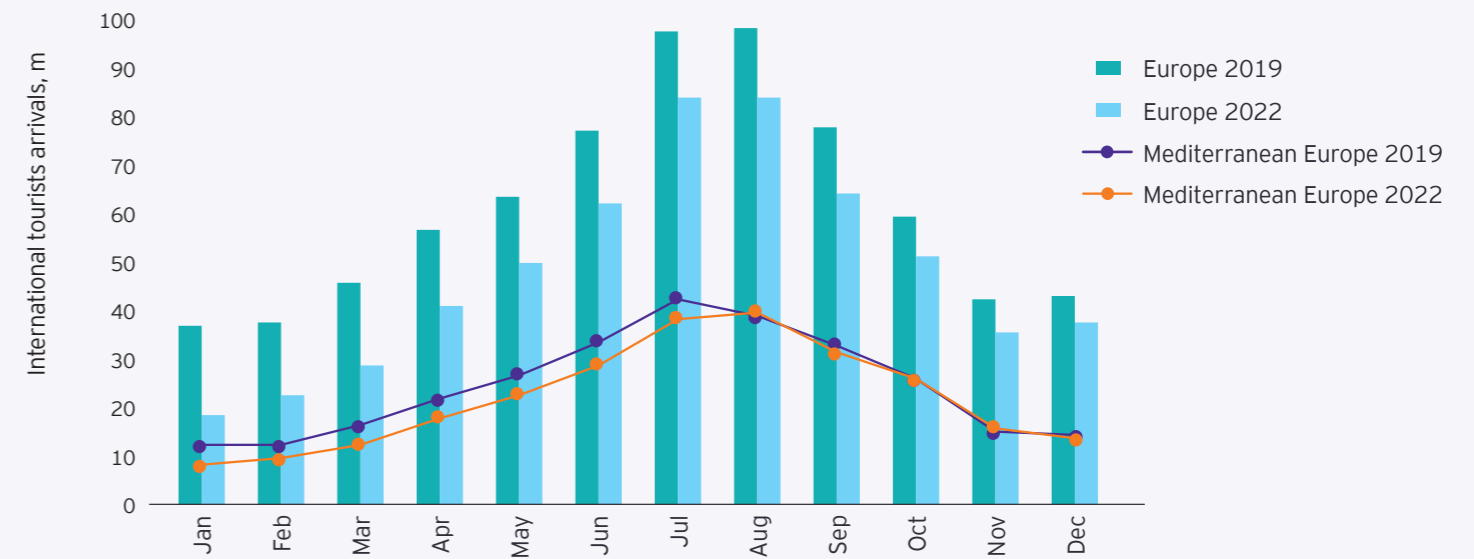
## Tourism in figures



### 01\_Tourism in figures

## European tourism arrivals and projections

International tourist arrivals in Europe: 2022 vs. 2019 and UNWTO forecast for 2023



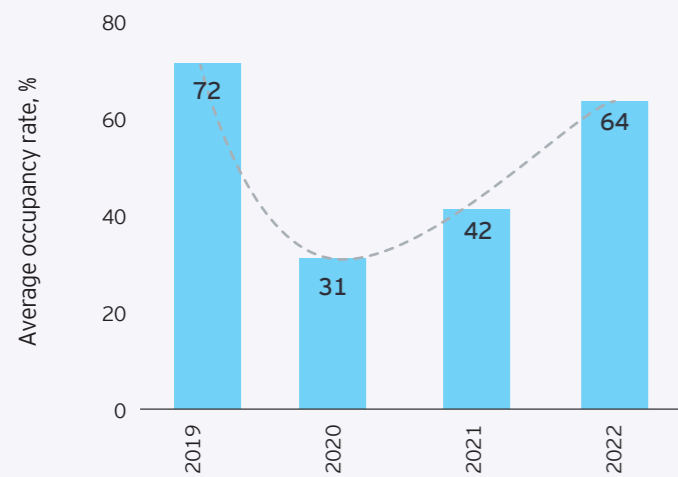
Source: [www.unwto.org](http://www.unwto.org), EY research

The European tourism industry rebounded strongly in 2022, held up by strong pent-up demand and savings of travelers during the pandemic. A total of 576m international tourist arrivals were recorded in Europe during the year, reaching close to 80% of pre-pandemic travel volumes. The results were almost double compared to those of 2021 (+92%), with monthly figures increasing continuously in 2022 and approaching towards the end of the year the levels of the 2019 corresponding months. The strongest recovery was experienced in the Mediterranean region, with annual figures

reaching almost 90% of pre-COVID arrivals and in some months even exceeding them. Despite the travel enthusiasm of 2022, the European Travel Commission (“ETC”) indicates that tourism recovery remains skewed to the uncertainty and economic downside stemming from the ongoing war in Ukraine, the resulting energy crisis and the persistent high inflation. Looking forward, international travel to Europe as a whole is forecasted to achieve pre-pandemic levels in 2025.



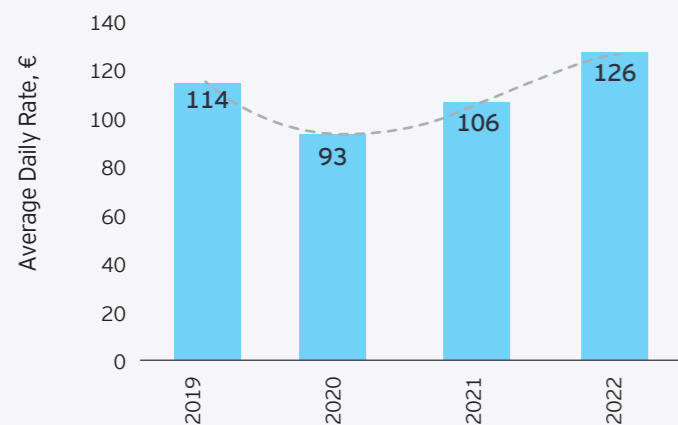
Average Hotel Occupancy Rates in Europe, %



Source: www.unwto.org, EY research

Average hotel occupancies across Europe took a large hit after the COVID-19 pandemic outbreak in 2020. In 2021, vaccinations and health passports have enabled European hotels to partly recuperate their 2020 losses. Occupancies continued to improve and bounced back sharply in 2022, ending the year at just 11% less than the 2019 average. According to industry experts, travel demand forecasts continue to show optimism, with a rise in in 2023 as consumers are still looking to make up for lost time.

Average Hotel Daily Rates in Europe, €



Source: STR, EY research

The impact on Average Daily Rates (“ADR”) has been less steep and less long-lasting than initially expected. Pent-up demand proved that many travelers were not as price sensitive, with an eagerness to spend on traveling following the consecutive lockdowns. In 2022 ADRs improved substantially across Europe, exceeding 2019 levels. This is partly attributed to the rising inflation and the hoteliers’ increased energy expense, cost of inventories and wages. According to STR, the Average Daily Rate (“ADR”) in Europe rose by 18.5% in 2022, which translates to €126. The expectation is that ADRs will continue gaining momentum in 2023.

Cypriot Tourism Industry - 2022 performance

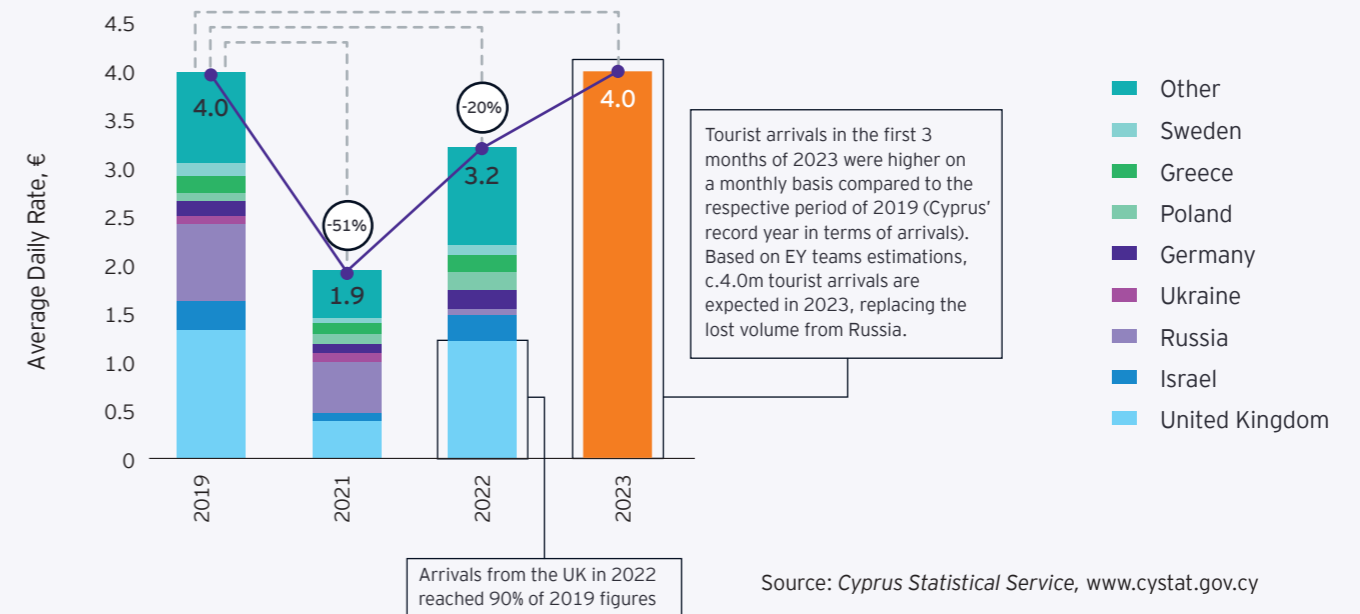
A glance at Cyprus’ tourism performance in 2022

Cyprus welcomed 3.2m tourists in 2022 (80% of 2019 levels) and pulled through with new markets, mitigating to a very large extent, the loss of c.800k Russian tourists. As illustrated below, in 2022 there was a significant growth in arrivals from major European markets such as Germany and Poland. The key driving force continues to be the United Kingdom with 1.2m arrivals (representing close to 40% of the total tourist arrivals in the year).

It is worth noting that based on ETC, Cyprus reported the highest growth rate out of all European destinations in tourist arrivals from Germany compared to 2019. While Germany has not historically been a strong market for Cyprus, the

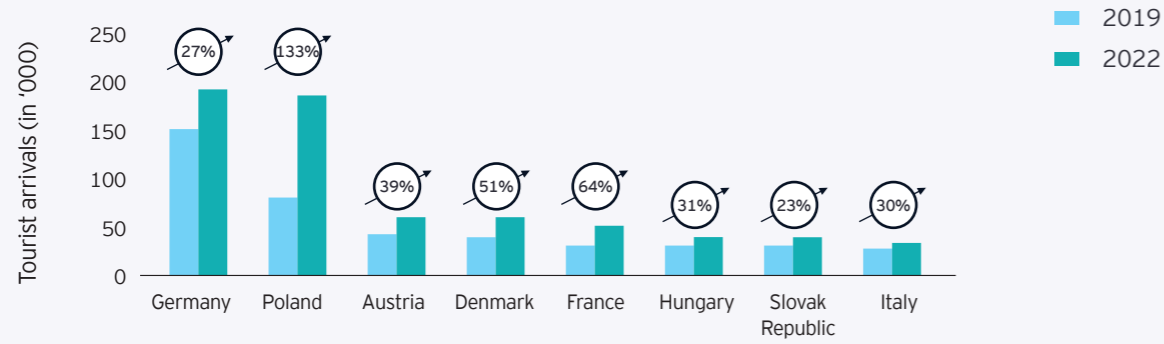
continuous upturn from the country that constitutes Europe’s largest outbound tourist market helps to further offset the lost arrivals from Russia. It is further noted that in terms of arrivals from France and Italy, Cyprus again emerges as a clear leader in terms of growth compared to 2019 levels, with both markets posing significant and untapped potential. The large increase of tourist arrivals from Poland in 2022 can also not be overlooked. The penetration of new European markets has boosted arrivals from the EU zone, which accounted for 41% of total tourist arrivals in 2022 (compared to just 26% in 2019).

Tourist arrivals by country, annual (2023 represents EY forecasts)

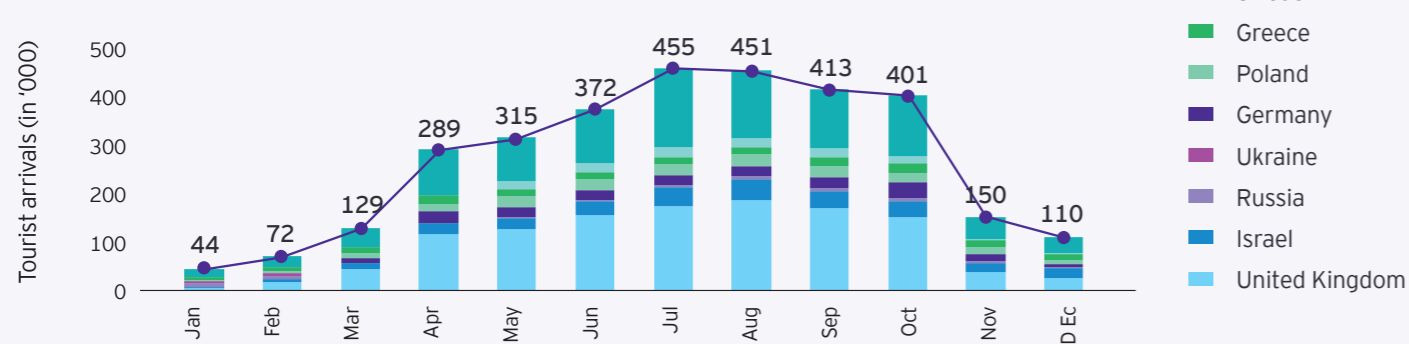


## 01\_Tourism in figures

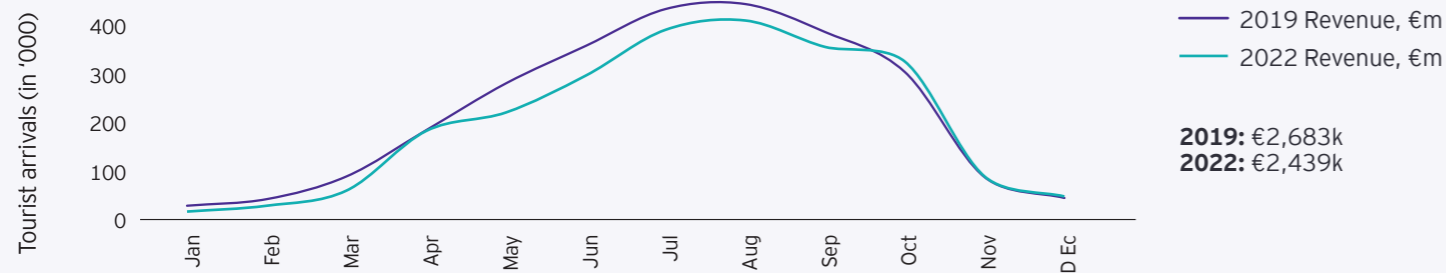
### Tourist arrivals - growth from big EU markets (2022 vs. 2019)



### Tourist arrivals by country, monthly (January - December 2022)



### Revenue from tourism (2022 vs. 2019)



Source: Cyprus Statistical Service, www.cystat.gov.cy

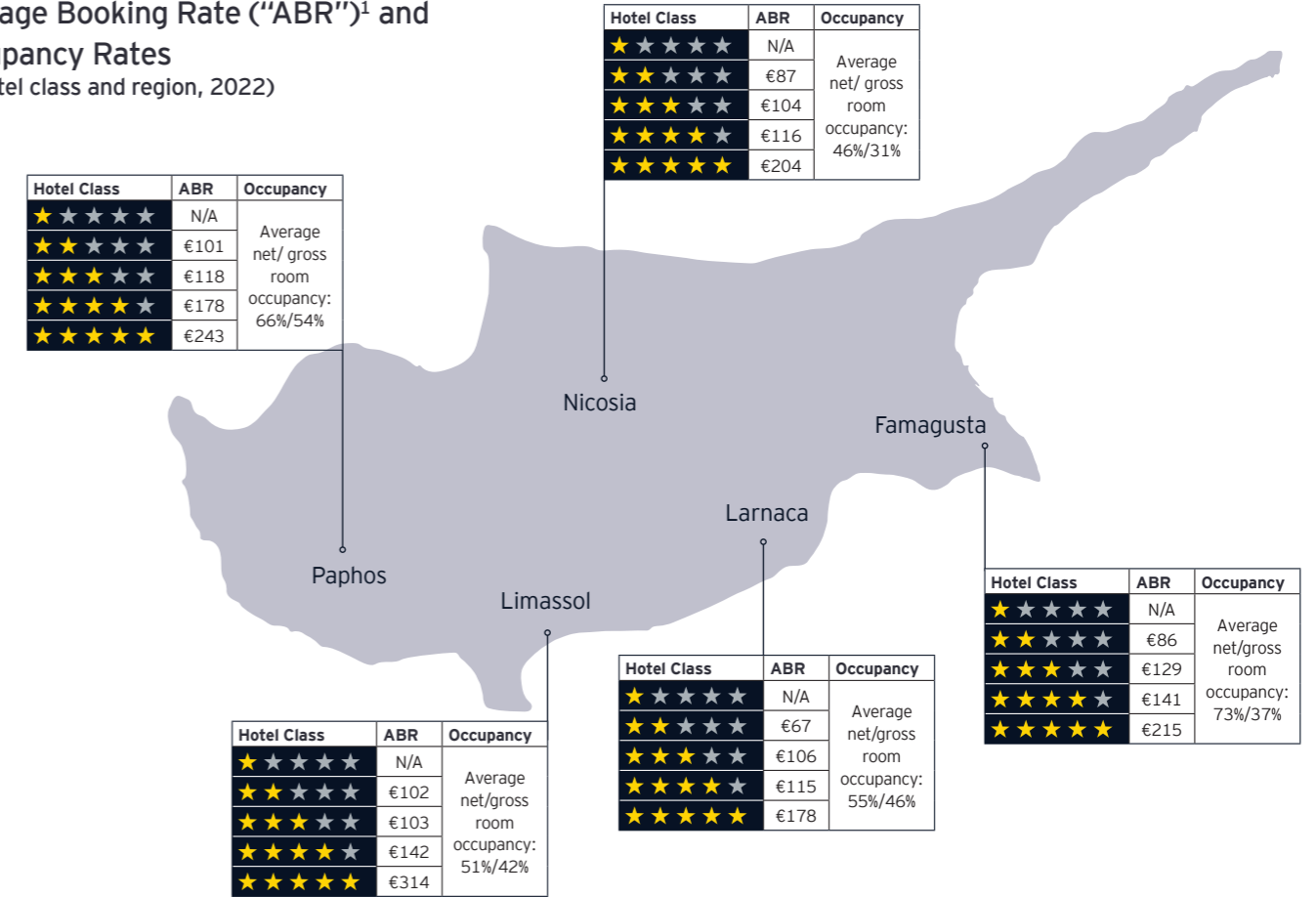
Revenue from tourism increased to €2.4b in 2022, coming close (c.91%) to the pre-pandemic record year of €2.7b and performing better than arrivals. According to CyStat<sup>(1)</sup>, visitors spent more per trip during their stay in Cyprus in 2022, not only because of longer stays on average but also due to

a higher average daily expenditure per tourist. The latest available data suggest that the average length of stay grew from 9.0 days in 2019 to 9.5 days in 2022. At the same time, average daily expenditure rose from €76 in 2019 to €82 in 2022.

Note 1: Data up to October 2022 as available by CyStat at the time of writing

## 01\_Tourism in figures

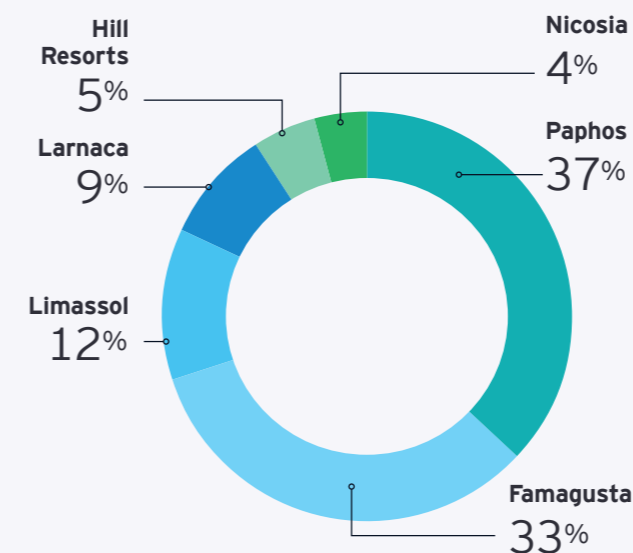
### Average Booking Rate ("ABR")<sup>1</sup> and Occupancy Rates (by hotel class and region, 2022)



Source: EY analysis for ABRs, Deputy Ministry of Tourism for Occupancies

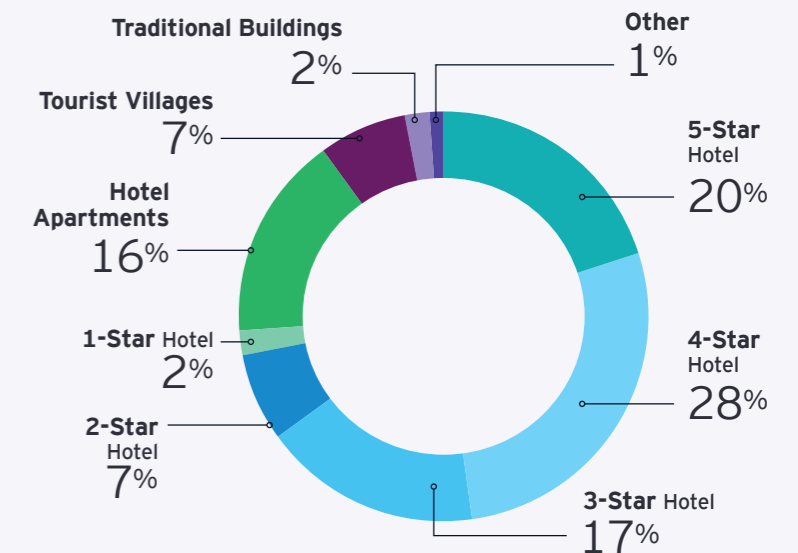
Note 1: Average Booking Rates represent published rates for 1 room for 1 night and are based on data extracted from public sources as available. The rates are calculated on the basis of a weighted average.

### Tourist arrivals at licensed accommodation establishments per city, 2022



Source: Cyprus Statistical Service, www.cystat.gov.cy

### Preferred accommodation type per type of licensed establishment, 2022



01\_Tourism in figures

# Sector Outlook

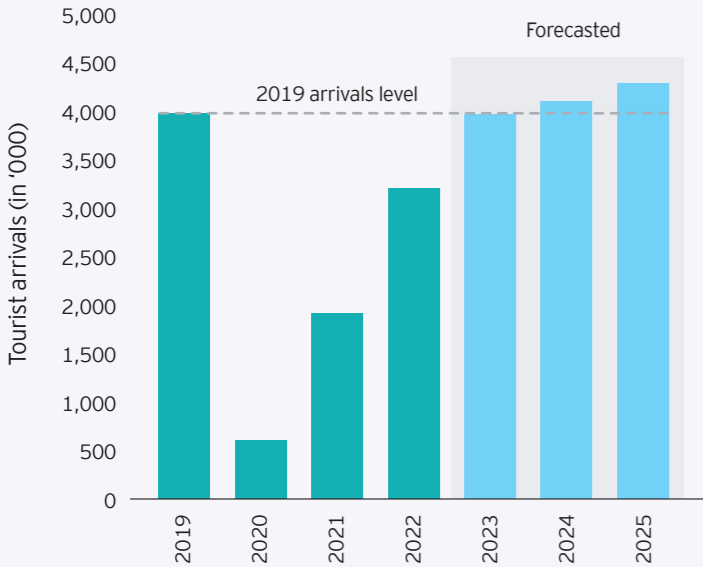
Reserved optimism among local stakeholders indicates that tourist arrivals can recuperate in 2023 and reach the 2019 record year arrivals.

However, several obstacles remain, including the ongoing war in Ukraine and its impacts, the economic downturn in a number of key feeder markets (like the United Kingdom), the continued volatility in energy costs and fuel prices that are

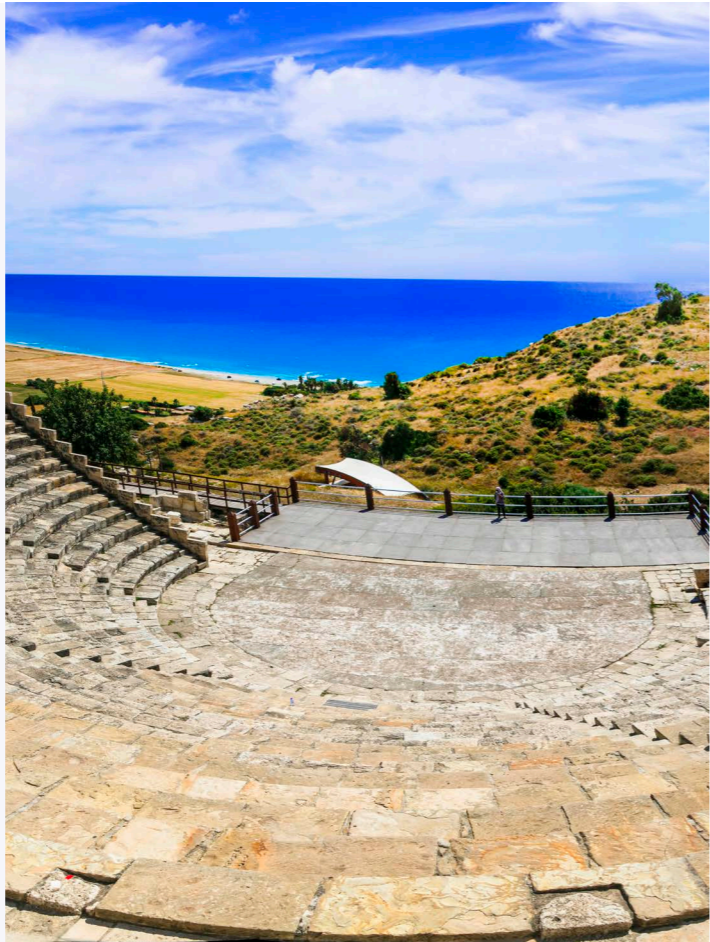
impacting airfares and holiday packages, inflationary pressures etc.

Taking the above into consideration, the following graph illustrates the projected recovery of tourist arrivals in Cyprus according to forecasts prepared by EY on the basis of the current economic and geopolitical situation.

Historical and projected tourist arrivals in Cyprus (2019 - 2025)



Source: Cyprus Statistical Service, www.cystat.gov.cy (historical), EY analysis (forecasts)



In 2023, tourist arrivals are expected to meet 2019 levels, before accelerating further in 2024 and 2025 to exceed pre-pandemic tourist arrivals.

Going forward, demand is expected to continue to be driven by the United Kingdom, Cyprus' largest tourist market historically.

In the absence of Russian visitors and relevant travel bans, other markets that are expected to help boost the sector and replace the lost arrivals. Such markets include among others Israel, Germany, Poland, and the Scandinavian countries.

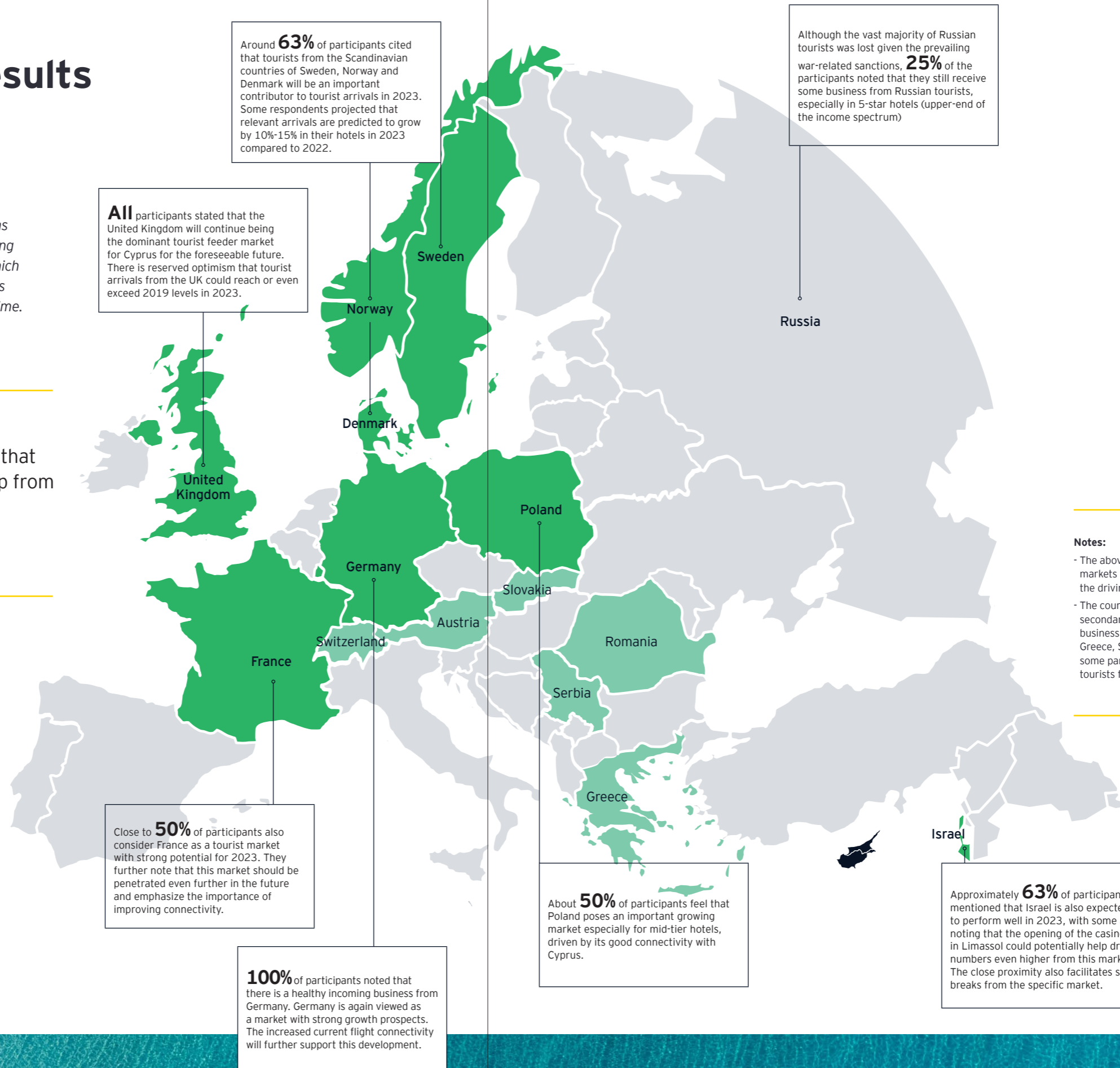
# 02 Industry Sentiment



# EY teams Survey Results

EY teams carried out interviews with top industry players in the first quarter of 2023 to obtain their views on the Cypriot tourism sector going forward. Executives, owners, and departmental heads of hotels across all classes as well as operators shared their sentiment on different topics; spanning financial, operational, and strategic considerations, all of which are outlined in the following pages. It is noted that responses reflect the views of the participants at the specific point in time.

**Q** Which markets do you expect that will step in to partly fill the gap from the loss of Russian tourists in 2023?



**Notes:**

- The above map pinpoints in green colour the key markets that were identified by most participants as the driving force for Cyprus' tourism sector in 2023.
- The countries highlighted in light green denote secondary markets that participants see sizeable business from. These include Austria, Switzerland, Greece, Serbia, Romania, and Slovakia. In addition, some participants experience a notable inflow of tourists from the United States.



## 02\_Industry Sentiment

**Q** When do you expect a return of tourist arrivals back to the pre-pandemic levels?

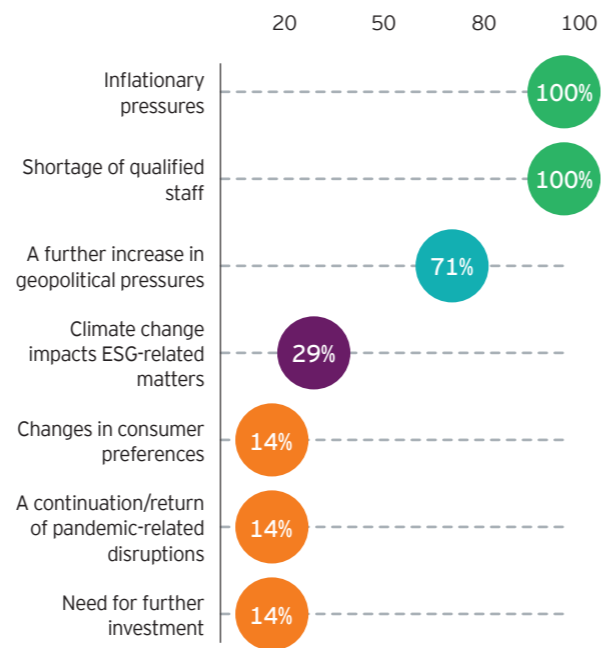


**Q** Which of the following do you consider to be the greatest risks/ challenges for your hotel in 2023?

Persisting inflationary pressures was considered by all participants to be the greatest risk in 2023 for the tourism industry. A decline in disposable income threatens consumers' ability to travel. Increasing costs are also exerting pressure on hotels' liquidity

Lack of qualified staff was also cited by 100% of participants as a major challenge, which was created during the pandemic however is expected to continue in the longer term. The issue is felt widely across the hotels' organogram and hinders hoteliers' ability to maintain their quality and service offering.

Any escalation in geopolitical tensions both in Ukraine and Eastern Mediterranean again represents a dominant risk based on c.71% of participants, with effects cascading to multiple economic activities and sectors

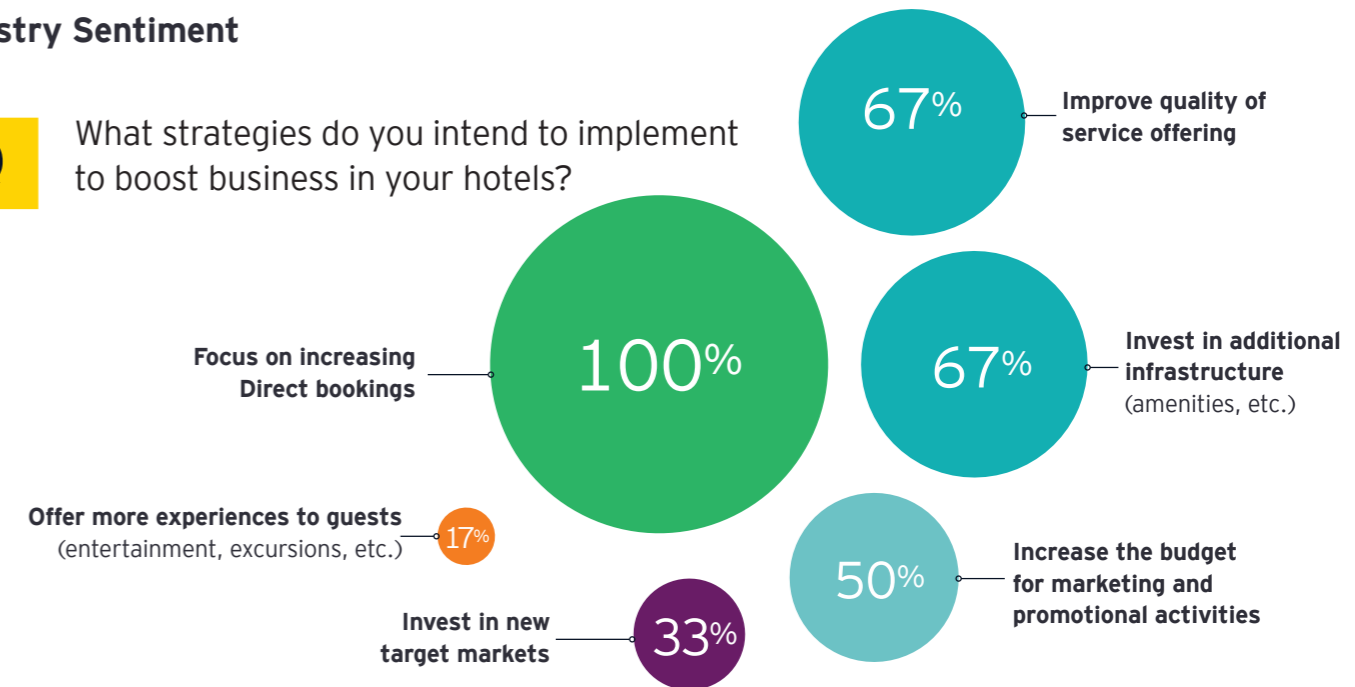


“ Although not highly rated at the moment, ESG-related matters will emerge higher on the risk agenda in the forthcoming years. Some upper-class hotels have already started taking necessary measures to align on consumer expectations and compliance matters and industry players will need to follow through

Survey Participant

## 02\_Industry Sentiment

**Q** What strategies do you intend to implement to boost business in your hotels?



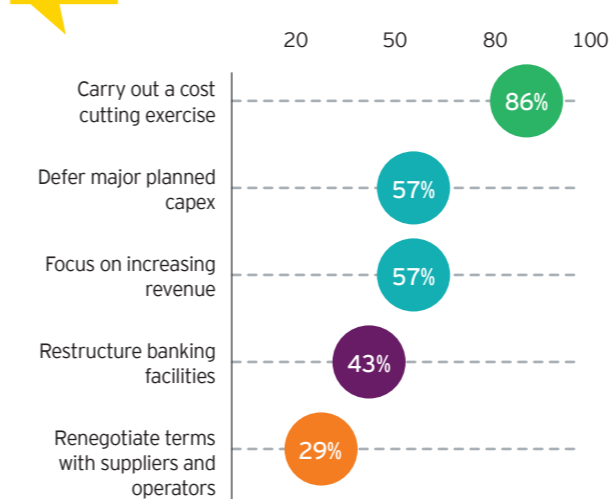
► All participants indicated investing in growing their Direct bookings (through Search Engine Optimisation, improved websites and other means) as a top priority. They also referred to the side benefit of the above exercise in terms of increased visibility to job seekers for employment.

The success of this strategy is largely interrelated with allocating higher budgets for marketing and promotional activities, which 50% of participants noted as also being a priority.

► Focus on further improving quality of service is also a priority area for about 67% of the participants. This is considered key for differentiation against competition and a way to penetrate quality driven markets. Higher guest satisfaction is seen as a key factor in both securing repeat business as well as in achieving higher ADRs.

► In line with the above, the majority of the participants also cited the importance of investing in further hotel infrastructure, despite the current uncertainty and liquidity pressures (hotel renovations, opening new F&B outlets, SPAs and new amenities, etc.).

**Q** What strategies do you intend to implement to improve the financial position of your hotels in 2023?



### Costs

Streamlining expenses is key for approximately 86% of the participants. In addition to better staff planning, this is expected to be boosted through further negotiations with key suppliers and vendors to secure better terms and prices. A number of participants also cited plans to shift to renewable energy sources to save on electricity costs.

### Capital Expenditure

About 57% of participants also plan to defer certain large-scale capital expenditures (new hotels, hotel extensions, etc.) in order to ease their cashflow.

### Revenue

Roughly 57% of the hoteliers are also focusing their efforts in increasing revenues, by penetrating new markets, increasing ADRs and offering supplementary services.

“ We aim to achieve cost efficiencies rather than cutbacks, such as improved spanning and resource allocation to control shift staffing, and bringing internally certain services (e.g. laundry) previously outsourced to external providers

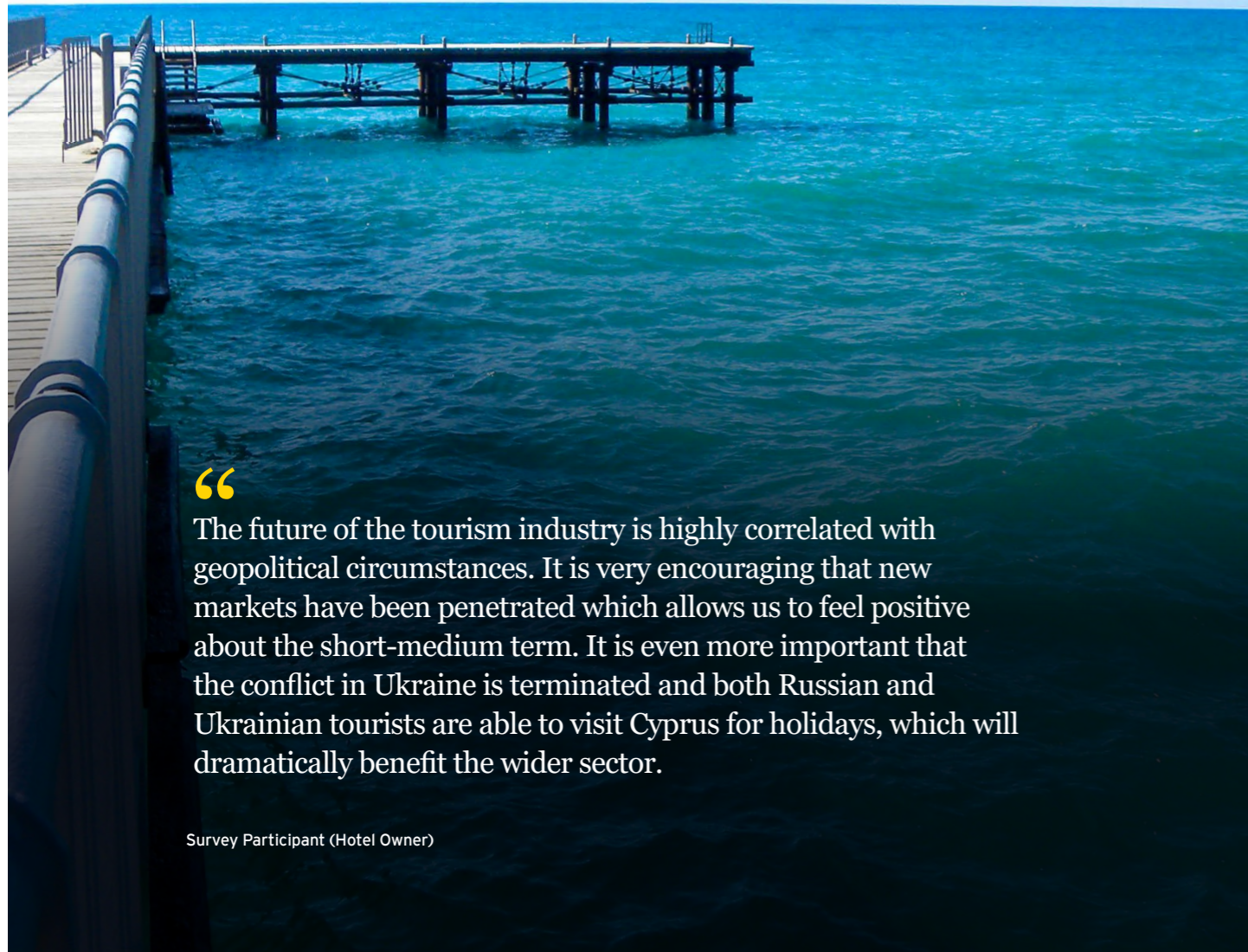
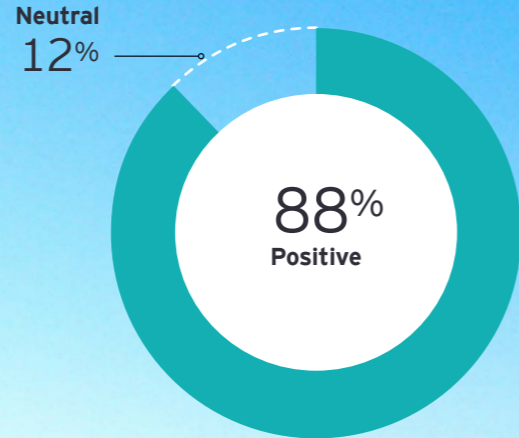
Survey Participant



Overall, what is your sentiment for the future of the Cyprus tourism sector in the shorter term?

Approximately 88% of participants maintain a Positive outlook for the tourism sector and expect a healthy performance in 2023, better than 2022.

It is worth mentioning that tour operators interviewed noted that they received excellent feedback from customers in 2022 and in general Cyprus received among the highest satisfaction scores. All of the participants indicated that their pre-bookings for 2023 as at the first quarter of the year appear really promising and in some cases are exceeding 2019 levels.



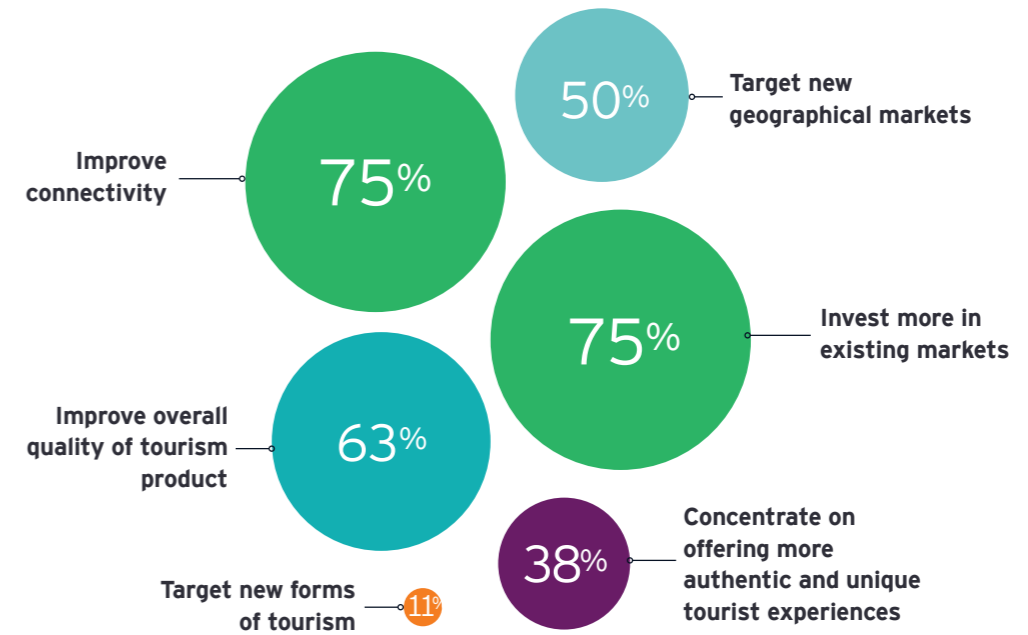
The future of the tourism industry is highly correlated with geopolitical circumstances. It is very encouraging that new markets have been penetrated which allows us to feel positive about the short-medium term. It is even more important that the conflict in Ukraine is terminated and both Russian and Ukrainian tourists are able to visit Cyprus for holidays, which will dramatically benefit the wider sector.

Survey Participant (Hotel Owner)

## 02\_Industry Sentiment



Where should we focus as a country to improve our attractiveness as a tourist destination?



Around 75% of participants consider that improving flight connectivity and investing more in existing markets such as the United Kingdom, Israel and Germany are key to sustain the resilience of the sector. Improvement of the overall quality of our tourism product is also deemed vital by c.63% of participants in order to differentiate ourselves against cheaper competitive destinations in the region such as Turkey. This not only includes the wider infrastructure, but also staff training and upskilling in hospitality.



The Deputy Ministry of Tourism's efforts in 2022 are highly praised and welcomed. It is very encouraging to see additional flights being introduced with major markets such as Germany. Digital marketing is also an area that must be exploited further to improve our brand awareness as a destination in both existing and new markets. This calls for a higher budget being allocated to the Deputy Ministry.

Another important remark relates to the overall improvement of the quality of our tourism product which extends beyond the hotels; this includes the cleanliness and maintenance of public infrastructure (such as roads, beaches etc.), urban planning and zoning order etc.

Survey Participant (Hotel Owner)

# 03

## Key Challenges



### 03\_Key Challenges

## Key challenges affecting the Sector

1

#### War in Ukraine

The war in Ukraine remains a major risk for international tourism, with multiple cascading impacts.

#### Cyprus angle:

Cyprus lost its second-largest tourist feeder market. Russia represented c.20% of total arrivals in 2019. Certain districts, such as Famagusta, were more reliant on the Russian market than others.

In response, Cyprus successfully shifted focus and increased penetration in high-potential European markets (Germany, Poland, France, etc). It also recorded high arrivals from traditional markets, such as the United Kingdom. The above enabled Cyprus to timely replace lost tourist arrivals from Russia and accelerate its path to full sector recovery by 2024.

2

#### Inflation & high commodity prices weigh on hotels and airlines

A major issue facing hoteliers worldwide is the increased cost of energy and other operating expenses. Increased costs are exerting additional liquidity pressures on the industry's already fragile finances. In addition, supply chain disruptions are becoming more prevalent and the cost of finance is increasing materially, making it more difficult for sector players to meet their relevant obligations.

Tourists themselves are also struggling with the upsurge in commodity prices and inflation, with real wages failing to keep pace and net disposable income and budgets to spend on leisure narrowing.

#### Cyprus angle:

In addition to the higher costs faced by the hoteliers, Cyprus, being an island economy, highly depends on airlines for inbound tourism. Any attempts by carriers to further raise fares, impact directly the cost and demand for holiday packages.

Having said the above, although Cyprus is not exempt from inflationary pressures, IMF projections released in April 2023 indicate that Cyprus' annual inflation growth will continue to be lower than the EU average in coming years. This is combined with anticipated targeted government measures to control or compensate for rising prices.

3

#### Labour shortages also lead to further operational costs and disruptions

The hotel industry is faced with a staffing crisis as a result of skilled workers leaving the industry and seeking employment in other sectors during the pandemic. Such workers are difficult to lure back, as they have become accustomed to regular working hours and other conditions. The prevailing labour shortages across Europe are contributing to rising wages, adversely affecting the operational results of most sector players. They further create disruptions in operation and affect the quality of the services offered.

#### Cyprus angle:

Like the rest of Europe, the labour shortage is leading to increasing employment costs through higher wages to attract/retain staff and other operational issues. Many foreign workers (EU nationals) have also left Cyprus to seek employment back in their own countries.

Recognising the importance of tackling labour shortages in the sector, the Cypriot authorities introduced new policies that now allow the employment of third country nationals in the tourism/hospitality industry in positions that were not open to non-EU nationals in the past.

4

#### Shift in traveler preferences

Although holiday planning has improved considerably in 2022, the tendency in last-minute bookings resumes in 2023, given the uncertainty over the war in Ukraine.

There is also a notable shift in traveler preferences towards shorter trips. As holiday travel emerged strong in 2022, with many satisfying their accumulated needs for holidays and even organizing multiple excursions last year, tour operators and hoteliers are now receiving bookings with shorter average length of stay in 2023.

#### Cyprus angle:

Cyprus offers an increasingly complete and diverse tourist product, capable to accommodate a range of tourist preferences throughout the year. This is supported by the results of the first 3 months of 2023 (i.e. low season), where tourist arrivals were 10% higher than the respective 2019 figures. Cyprus continues to rank high on travellers' choices and offering an attractive destination for holidaymakers.

# Key trends and emerging themes affecting the Sector

Coping up with the setbacks, hoteliers are investing on technology to streamline operations and create new growth strategies

## Personalised services

► By utilizing machine learning to collect and analyse data, some hoteliers personalized their guest experiences from booking to dining. As an example, some hotels identified that guests were more interested in breakfast than dinner as a meal, to which they focused their investments to differentiate themselves by offering an upscale breakfast experience and menu that guests could personalize.

## Contactless and seamless guest experience

► A number of international hotel groups developed contactless arrival kiosks at select-service hotels and also launched contactless grab-and-go food & beverage stalls. Other contactless experiences include mobile check-in and checkout, facial recognition onboarding, digital/mobile room key, mobile dining bookings and requests, ability to plan and book activities through an app, automated text information and more.

## Use of robots and chatbots

► Some premium hotel groups have introduced 24/7 chatbots as a way to assist immediately and on demand on all front desk duties, room deliveries, wake-up calls, requests for hotel amenities, and many more day-to-day tasks. By taking 'routine' requests out of the way, the hotel staff can focus on adding value to customers by focusing on the more personalized guest experiences.

## Utilizing Virtual & Augmented Reality technologies

► Hoteliers are focusing on improving direct bookings and are enhancing their websites. They are offering on their websites 360-degree immersive VR tours where guests can experience the hotel's accommodation options and amenities, restaurant ambiance, café terraces, the pool and beach facilities etc.

## New technology learnings and training courses for staff

► It is difficult to maintain guest relationships without proper knowledge of the new technology which is constantly evolving. It is necessary for the hotel and its staff to be on top of these developments and therefore the right training needs to be delivered to the right people to be able to leverage properly.

► With new learnings and trainings, hotel staff will be able to best interact with guests, attend to their requests and provide a more personalized experience.



## 03\_Key Challenges

### There is accelerated urgency for hotels to set their Environmental, Social and Governance (ESG) goals

- The hotel industry's commitment to ESG initiatives is increasing. Rising energy prices are likely to accelerate the industry's focus on sustainability, particularly given the shift in traveler preferences towards more sustainable tourism and green accommodation and the growing demand for disclosure around climate risk.
- Many hotel groups made commitments to reduce their impact on the environment by setting climate-based targets. Investors are also interested in understanding exposure to these climate risks.
- Developing the workforce and underserved populations through training programmes is also being taken seriously by the largest hotel players. Staff hiring equity and inclusion is another priority, and some hotels have also started to make supplier choices based on alignment with ESG priorities.

### Cyprus angle:

Several hotels in Cyprus (mostly at the upmarket end) have already started adopting comprehensive technology suites to meet the shifting guest requirements. Some have also begun aligning with ESG goals which rate high on their agenda. The digital adoption of the Cypriot tourism sector, although developing, is still below many of its EU competitors. For Cyprus to maintain its competitiveness and remain at the forefront of tourism in the Mediterranean, hoteliers need to allocate resources towards digitalization and the use of new technologies.

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