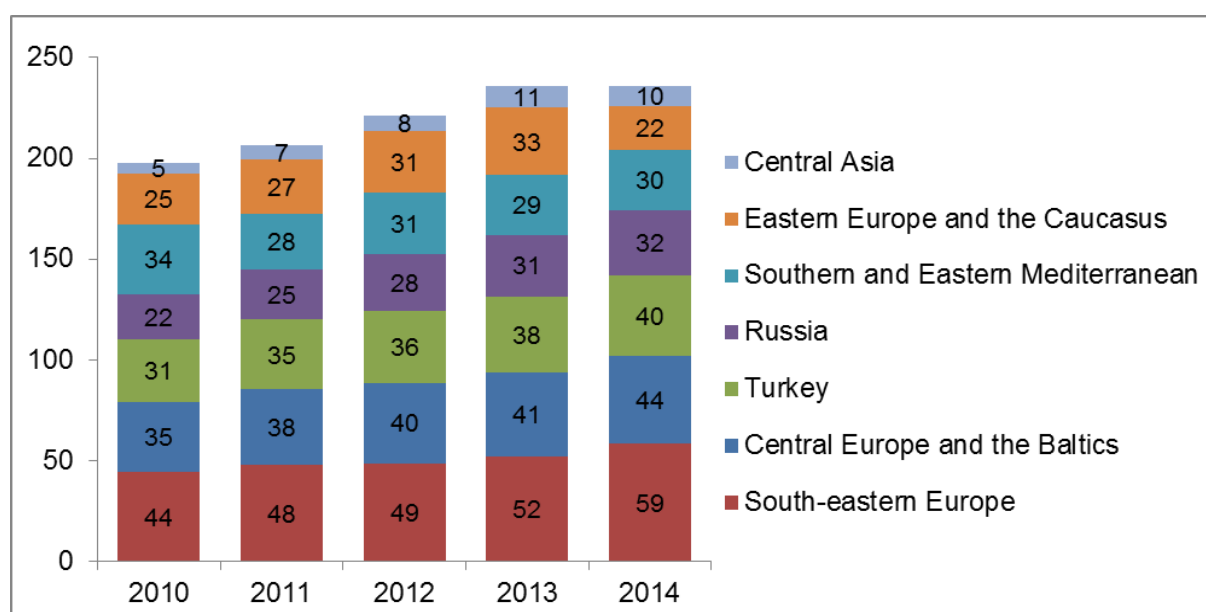


Tourism in south-eastern Europe – driving the recovery?¹

Tourism is an increasingly important source of revenue and driver of growth in many countries in the EBRD region, and especially in south-eastern Europe (SEE). Receipts from international tourist arrivals account for more than 10 per cent of GDP in several countries in SEE, with a substantial upward trend in the past five years. In light of the security risks in other popular markets, SEE can expect to see further rises in tourism in the coming years, which would help consolidate the economic recovery under way in the region. However, a recent World Economic Forum report on competitiveness in the travel and tourism industry highlights important shortcomings associated with weak price competitiveness, a problematic business environment, inadequate infrastructure and low prioritisation of tourism industry. Addressing these problems would help the SEE region come closer to achieving its full potential in this important industry.

South-eastern Europe is the largest tourist destination in the EBRD region.² Tourism has become an increasingly important source of revenue and employment across the EBRD region, which now accounts for 20 per cent of more than 1 billion global international tourist arrivals. Within the EBRD region, SEE accounts for one quarter of these arrivals, or 59 million (see Figure 1). SEE has also experienced the largest increase over the last five years, with an increase in arrivals of around 15 million since 2010. Access to the Mediterranean Sea and close proximity to the main source markets of Western Europe and Russia are prominent factors behind the region’s popularity as a major tourist destination.

Figure 1: International tourist arrivals, in millions: EBRD regions



Source: World Bank, World Development Indicators.

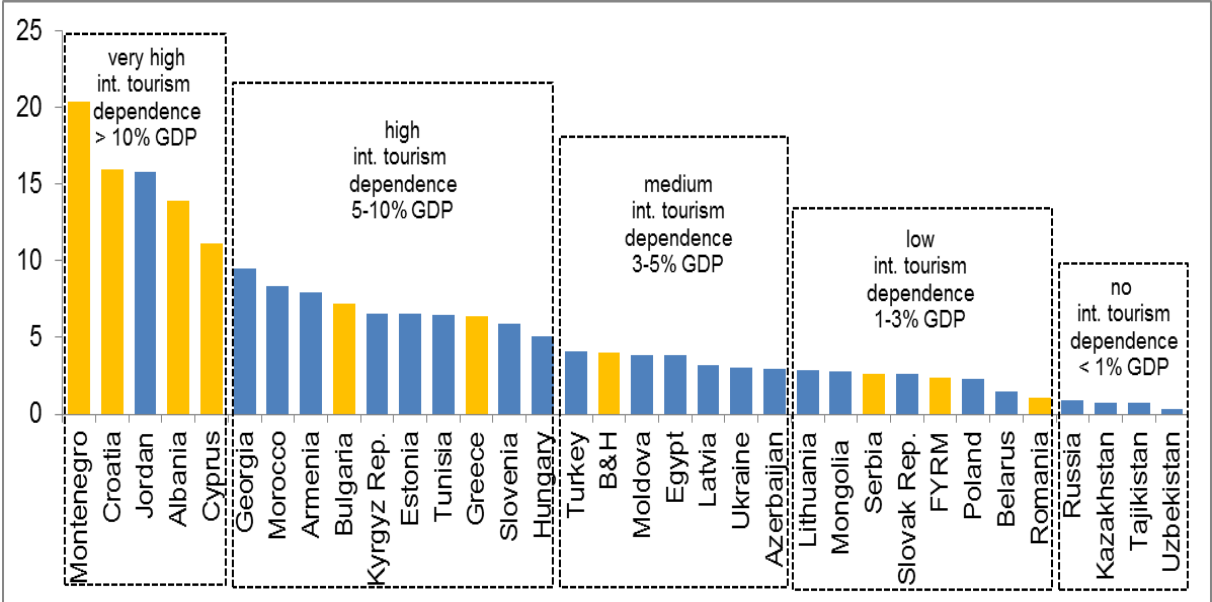
The tourism sector is a major source of economic activity in many SEE countries. Receipts from foreign tourist arrivals account for more than 5 per cent of GDP in six countries: Montenegro, Croatia, Albania, Cyprus, Bulgaria and Greece (see Figure 2). The sector is also a major source of employment. These countries attract a large number of

¹ Prepared by Peter Sanfey (ext. 6227) and Jakov Milatovic (ext. 8256).

² For the purposes of this focus piece, we include in SEE the following 11 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, FYR Macedonia, Greece, Kosovo, Montenegro, Romania and Serbia.

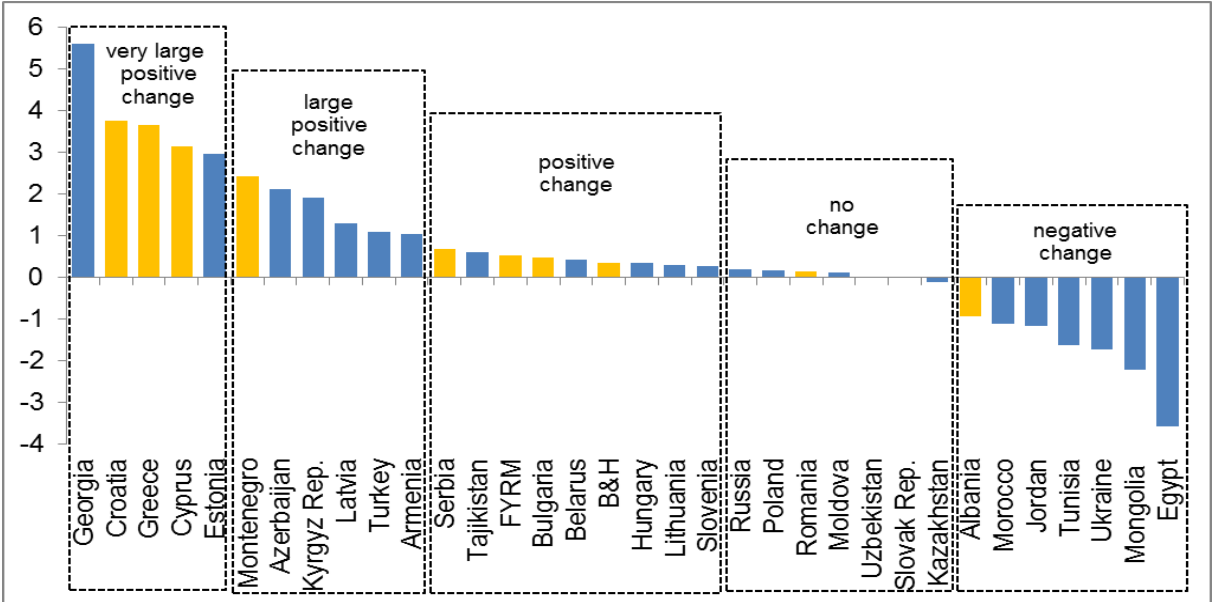
European summer holiday tourists, and the importance of international tourist receipts has increased significantly since 2010, especially in Croatia, Greece, Cyprus and Montenegro (see Figure 3). These countries are likely to be benefiting from the political turmoil across rival destinations in the Southern Mediterranean. In addition, the perceived increasing threat from terrorism has diverted European and Russian travellers towards destinations closer to home.

Figure 2: International tourism receipts, per cent of GDP, 5 year average



Source: World Bank, World Development Indicators.

Figure 3: International tourism receipts, per cent of GDP, percentage point change over the previous 5 years

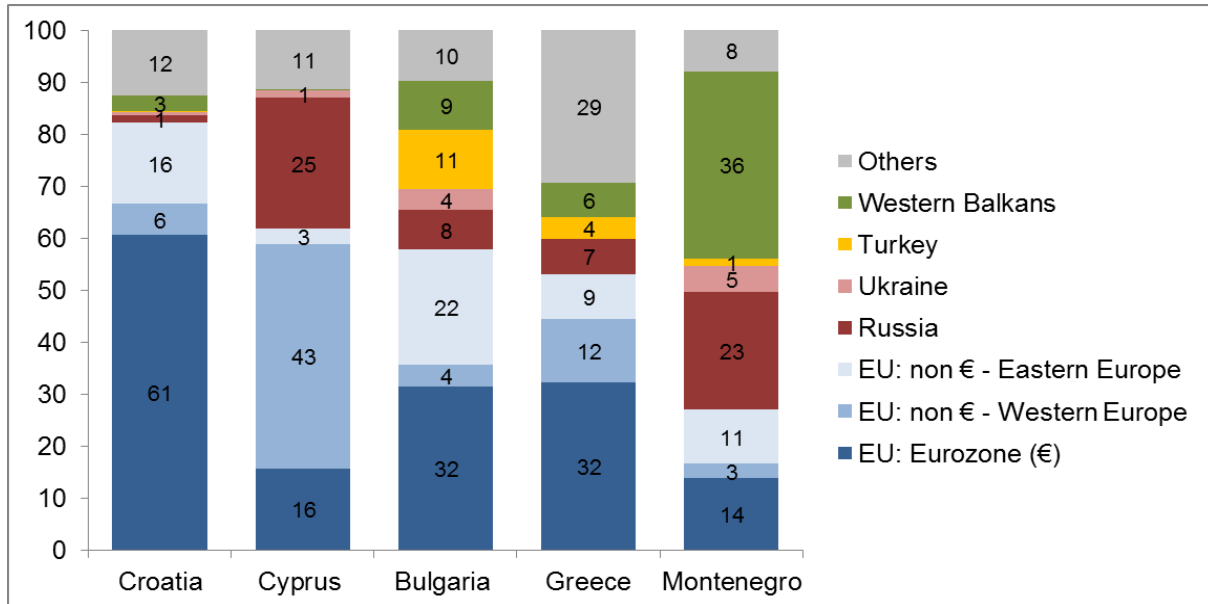


Source: World Bank, World Development Indicators.

Eurozone countries are the primary source of tourism for Croatia, Bulgaria and Greece while Russia accounts for about one-quarter of all tourist arrivals to Cyprus and Montenegro. More than 80 per cent of tourist arrivals in Croatia are from the EU (see Figure 4), mostly from the Eurozone. In contrast, only 30 per cent of international tourist arrivals to Montenegro are from the EU. Instead, Russia and the Western Balkans (Serbia in particular)

together account for about half of all arrivals in Montenegro. Cyprus is another country highly dependent on Russian tourists, as well as those from the UK, while Eastern Europeans and Turkish visitors are relatively important for Bulgaria. The share of non-European tourists is largest in Greece.

Figure 4: Tourist arrivals by country of origin, per cent share



Source: National authorities;

Note: For Albania, no breakdown of arrivals by country of origin is available.

SEE countries face a competitiveness problem in the tourism industry. Cross-country competitiveness in the tourism sector can be assessed by using the World Economic Forum's (WEF) Travel and Tourism (T&T) Competitiveness Index. This index gathers 90 indicators relevant for the tourism (and travel) industry and groups them, first, into 14 pillars, and then into the following four groups: 1) enabling environment (i.e., business environment, safety and security, health and hygiene, human resources, ICT readiness), 2) travel and tourism policy and enabling conditions (i.e., prioritization of travel and tourism, international openness, price competitiveness, environmental sustainability), 3) infrastructure (i.e., air transport, ground and port infrastructure, tourist service infrastructure), and 4) natural and cultural resources, including business travel.³ Figure 5 shows the ranking of SEE countries. Greece, Croatia and Cyprus are amongst the top 40 economies in the world (ranked in 31st, 33rd and 36th position, respectively), Bulgaria, Romania and Montenegro are at the lower end of the upper 50 percentile, and remaining SEE countries perform relatively poorly. All SEE countries are less competitive in tourism than other traditional holiday destinations in the northern Mediterranean, such as Spain, France, Italy and Portugal.

A number of shortcomings in the tourism sector stand out. A more detailed breakdown of the WEF's scores highlights some of the problems. Greece, for example, stands out as the least price competitive country in the region, with Cyprus also being a costly destination. Croatia's poor business environment has the largest negative effect on its T&T competitiveness. In the Western Balkans, major bottlenecks for further tourism development exist because of the relatively low quality of ground infrastructure and the underdeveloped air transport network. Nonetheless, improvements in recent years have produced positive results

³ For more information see: <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/>

for the local tourism industry, and governments in this part of the SEE region have begun to promote their countries more actively. As infrastructure improves, this strategy should pay off in terms of substantially increased tourism revenues.

Figure 5: Travel & Tourism Competitiveness Index 2015, detailed analysis

Competitiveness Index 2015		GRC	CRO	CYP	BUL	ROM	MNE	MKD	SRB	ALB
Ranking out of 141		31	33	36	49	66	67	82	95	106
Enabling environment	Business environment	104	125	43	85	96	73	34	133	93
	Safety and security	57	28	27	78	65	47	45	59	70
	Health and Hygiene	9	18	51	5	46	55	42	38	72
	Human Resources and Labor Market	45	80	20	48	64	35	73	89	56
	ICT Readiness	49	38	50	47	59	58	55	56	73
T&T Policy and Enabling Conditions	Prioritization	24	74	3	95	88	67	81	113	105
	International Openness	25	19	48	45	42	100	104	101	106
	Price Competitiveness	113	101	111	35	54	84	79	78	93
	Environmental Sustainability	61	42	83	27	46	55	107	72	109
Infrastructure	Air Transport	27	53	46	79	87	56	85	102	97
	Ground and Port Transport	51	44	23	79	91	66	81	98	95
	Tourist Service	12	6	2	13	42	19	59	63	79
Natural & Cultural Resources	Natural Resources	46	33	84	48	79	75	121	135	128
	Cultural Resources & Business Travel	32	36	56	54	49	134	110	67	127

Source: WEF's T&T Competitiveness Report.

Note: Countries are ranked on a range from 1 to 141, with 1 representing the most competitive and 141 the least competitive in the T&T sector.