



NATIONAL BANK OF GREECE  
Economic Analysis Department

## Survey of Greek SMEs

Accommodation sector

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- ❑ Tapping into the marked dynamism of foreign tourist inflows, the tourism sector in Greece has proved resilient in the face of the prolonged economic crisis, standing out as one of the few sectors that increased employment levels in the period 2008-2016 (up 7% versus a decline of 23% for the rest of the business sector). Similarly, tourism receipts from abroad were close to €13 billion in 2016 (versus €11.6 billion in 2008), generating 73% of foreign surplus in services (up from 57% in 2008). On the back of these developments, the accommodation sector increased its contribution to GDP (3.5% in 2016 versus 2.5% in 2008, and 1.6% on average in the main competitor Mediterranean countries).
- ❑ During the course of the crisis, the Greek accommodation sector enhanced its extroversion and thereby more than compensated for the fall in domestic demand. Spearheading this upward trend were individual foreign tourist bookings (who boosted their share of foreign hotel demand to 45% in 2016 versus 25% in 2008, thus bringing about a decline in the contribution of foreign travel agents). This development is noteworthy, since individual bookings are more profitable, the gap between the two being close to 20% in 2016. Another notable feature of the crisis period has been the upgrade in hotels' quality (which was accompanied by a 10% increase in beds in the period 2008-2016), with more than 80% of new beds being in 4-5-star hotels, thereby bringing their total share to 43% of beds in 2016, versus 37% in 2008.
- ❑ As the increase in supply (of beds) was less pronounced than the increase in demand (10% versus 19% in the period 2008-2016), Greek hotels achieved increased room occupancy rates. The trend in total room occupancy was reflected in the trend in prices for individual tourists, which, following a 14% drop in the period 2008-2013, rebounded strongly in the period 2013-2015 (up by 23%). As a result of these developments, sales by Greek hotels grew by 18% in the period 2008-2015 and the operating profit margin returned over the last four years to pre-crisis levels (24% in 2015 versus 20% in 2010). However, the combination of negative shocks in 2016 (i.e. instability in the region and delayed impact of capital controls) exerted downward pressure on prices and put a brake on growth of foreign tourist bookings at Greek hotels.
- ❑ More important than short-term fluctuations in daily tourist expenditure on accommodation, food and other services/goods (circa 1/2 is directed at hotels) is the fact that such expenditure over the past decade has remained close to €70 - a level significantly lower than the average in competitor countries (by about 15%). A possible explanation for this development is the tourist quality mix, as the share of arrivals from SE Europe increased to 11% in 2016 from 4% in 2005 (partly due to the gradual improvement of the relevant road infrastructure, such as the Egnatia Odos and the new border posts, as well as the increase in per capita income in these countries). As a result, the share of high-income tourists has declined – a development confirmed by NB survey of 200 SMEs hotels for the period 2008-2016 (down from 27% to 23% of their foreign visitors).

- ❑ The deterioration of the tourist mix is not uniform across all hotels. To illustrate, the weaker part of the hotel sector, being less outward oriented (with 60% of visitors being Greeks, versus 30% in the case of the more dynamic hotels), faced a severe need for more foreign visitors due to the waning domestic demand. However, the poorer quality of their building facilities (just 27% are 4-star or over, compared with 74% for the dynamic hotels) has adversely affected their ability to attract high-income tourists from the traditional and economically developed European markets, forcing them to switch to the markets of the Balkans and Eastern Europe. This development also has a regional dimension, as the weaker hotels present a marked concentration in northern Greece (1/2 of hotels in Macedonia and Thrace, compared with 12% in Crete and the South Aegean), where daily tourist spending is lower (circa €50 versus €80 for Crete and the South Aegean).
- ❑ The second structural problem of Greek tourism is high seasonality, with over 3/4 of overnight stays being in the period June-September (versus 60% for competitor destinations), thus leading to lower than optimum performance reflected in:
  - ✓ annual room occupancy rates (standing at 27% versus 40% for competitors), and
  - ✓ return on accommodation infrastructure (which is 8% lower than competitors in terms of operating profitability per unit of fixed assets, despite the injection of profitability from the higher priced summer months).
- ❑ In the medium term, (i) the expansion of the tourist season to the levels of directly comparable competitor destinations combined with (ii) closer alignment of the tourist quality mix in Greece with that of competitor destinations could increase tourism receipts by €5 billion per year – over ½ of which would, according to estimations, be channelled to hotels. The additional investment required to implement this strategy is cumulatively €6 billion in hotels and €16 billion in other tourism infrastructures – with upgraded infrastructures attracting higher income tourists which would thereby serve to increase hotel prices as well as the consumption of goods and services. The aforementioned infrastructures could be completed within five years if annual tourism investment returns to roughly its pre-crisis level.
- ❑ In addition, the problem of marked seasonality can be addressed by promoting city destinations - with hotels stressing that special forms of tourism (conference, medical, sports etc.) could serve as key potential drivers of growth.

**Note:** The graphs with green shading derive from the NBG field survey conducted on a sample of 200 SMEs of the hotel sector.

## □ Tourism and hotels

### □ Quality of the tourist mix

- Demand
- Supply
- Prices
- 2016 developments

### □ Seasonality

- Development over time and impact on receipts
- Findings of NBG survey on Greek hotels

### □ Future prospects

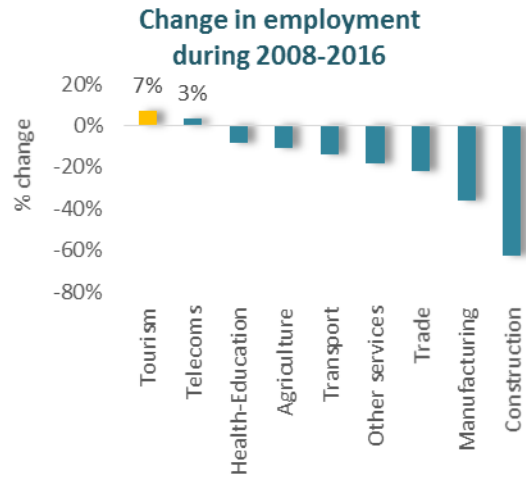
- Impact on strategy and sector performance
- Findings of NBG survey on Greek hotels

### □ Annex

- Estimates for 2017
- Medium-term outlook
- Mapping the SME segment in Greece
- Sample description
- Constructing the business confidence index for SMEs
- Survey ID

## Tourism has proven resilient during the crisis increasing its contribution to GDP, jobs and exports

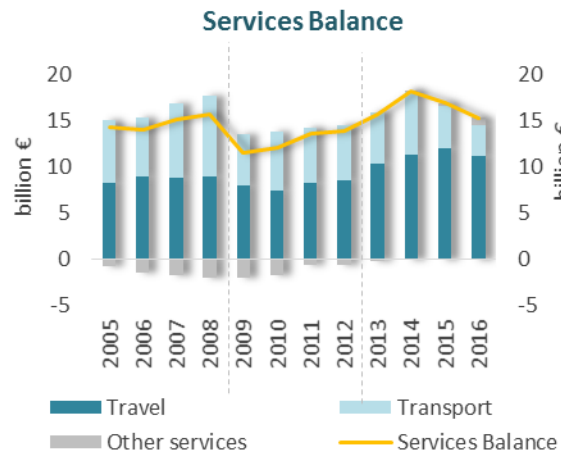
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\* accommodation and food services

Source: EL.STAT., NBG estimates

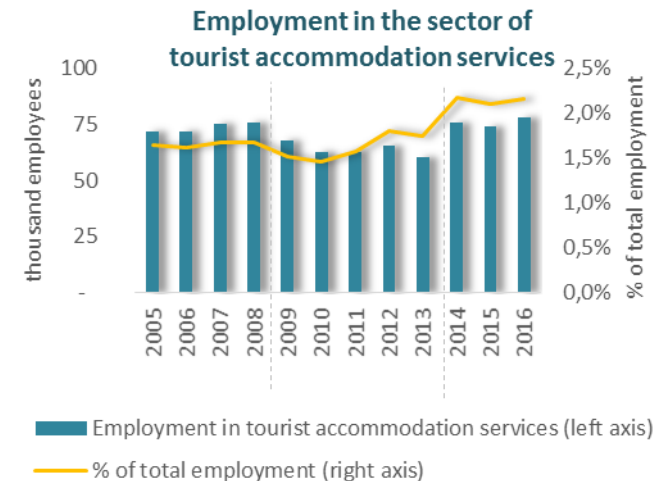
- Standing out as one of the few sectors that boosted employment in the period 2008-2016 (up 7% versus a drop of 23% for the rest of the business sector), tourism in Greece presented strong resilience and dynamism during the crisis. Specifically, official tourism receipts from abroad topped €13 billion in 2016 versus €11.6 billion in 2008 (according to BoG data), thus generating 73% of the external surplus in services versus 57% in 2008 (while in the same period shipping foreign exchange earnings declined by 62%).
- One of the key beneficiaries of this dynamic was the **tourist accommodation segment** (64% of the tourism sector in terms of value added), which – after a small slowdown in the period 2008-2010 – recovered gradually over the last six years to pre-crisis levels both in terms of value added (circa €6 billion) and jobs (nearly 80,000 employees), amounting to:
  - ✓ 3.5% of GDP in 2016 versus 2.5% in 2008 (and an average of 1.6% in the country's main Mediterranean competitors), and
  - ✓ 2.2% of total employment versus 1.7% in 2008 (and an average of 1.4% in the main Mediterranean competitors).



Source: Eurostat, NBG estimates



Source: Eurostat, NBG estimates



Source: Eurostat, NBG estimates

## The strong dynamic of foreign tourist inflows helps offset the impact of reduced domestic demand

6

Foreign tourist arrivals in Greece



Source: Eurostat, Bank of Greece, NBG estimates

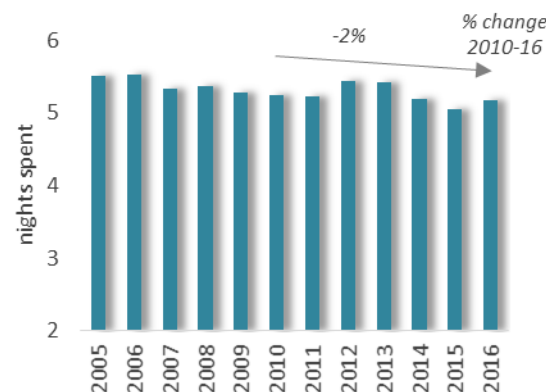
- Foreign tourist arrivals in Greece increased by 65% in the period 2010-2016, at circa 25 million in 2016. With 60% of these arrivals staying in hotels, this trend led to increased demand for hotels, thus fully offsetting the decline in domestic demand (down 16% in the period 2010-2016). As a result, total tourist arrivals at Greek hotels increased by 12% in the period 2010-2016, with foreign tourists accounting for 2/3 of total arrivals at Greek hotels versus 55% in 2010.
- While the average duration of the stay of foreign tourists at Greek hotels fell marginally in the period 2010-2016 (due to a higher contribution of individual visitors versus long-stay package holidays), overnight stays by foreign tourists grew by 33% in the period 2010-2016 (versus an increase of 35% in terms of arrivals). Given the weak domestic demand (which accounts for 19% of overnight stays), total occupancy at Greek hotels increased by 19% in the period 2010-2016.

Total tourists arrivals in Greek hotels



Source: Eurostat, Bank of Greece, NBG estimates

Length of stay:  
Foreign tourists staying in hotels



Source: Eurostat, Bank of Greece, NBG estimates

Total night spent in Greek hotels



Source: Eurostat, Bank of Greece, NBG estimates

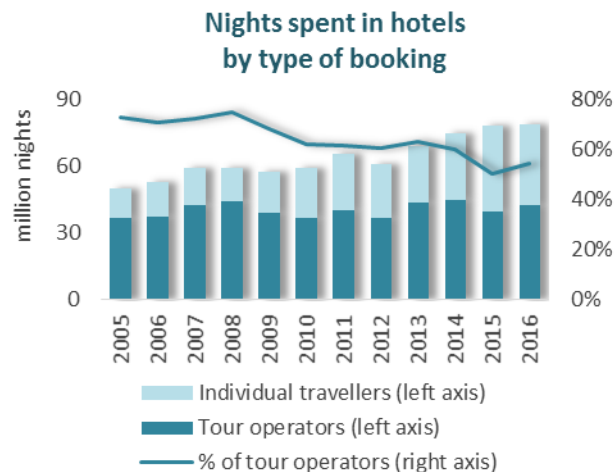
## Although demand through travel agencies remained unchanged and prices of package holidays fell slightly...

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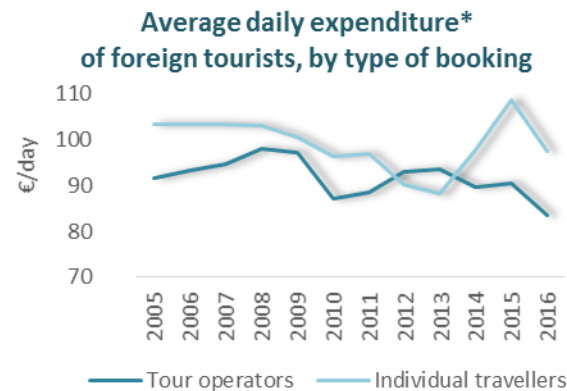


Source: Eurostat, Bank of Greece, NBG estimates

- The increase in foreign tourist demand appears to be due exclusively to individual travellers, who doubled in the period 2008-2016. In contrast, bookings via travel agencies fell by 20%, with their contribution declining to 25% of arrivals in 2016 versus 43% in 2008. This is a noteworthy development since individual bookings are more profitable, with spending per overnight stay being 8% higher on average in the last 10 years versus bookings via agencies – with the gap between the two widening in 2016 to circa 20%.
- While package holidays last 10 days on average, as compared with stays of 3 days' duration for individual travellers (up from 2.5 in 2008), their contribution in terms of overnight stays is also declining, though remaining at high levels (55% in 2016 versus 75% in 2008).
- Total daily tourist expenditure (for accommodation, food and other costs) is broadly in line with the respective trends of both booking methods, with package holiday prices declining in the period 2013-2015. Combining the two impacts (of daily expenditure and number of nights), package tourists account for ½ of hotel receipts in 2016 versus ¾ in 2008.



Source: Eurostat, Bank of Greece, NBG estimates



\* including expenditure for accommodation, food, transport and other activities of foreign tourists who stay in hotels.

Source: Bank of Greece, NBG estimates

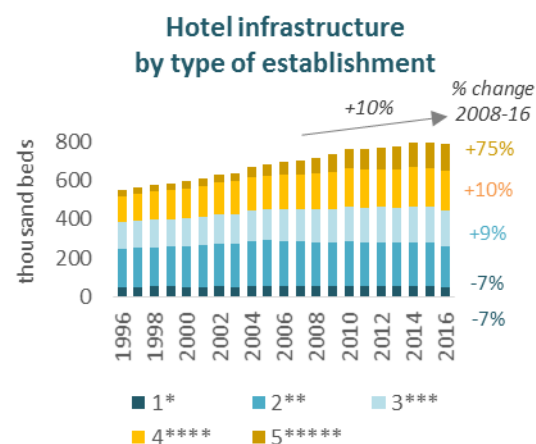


Source: Eurostat, Bank of Greece, NBG estimates

## ...demand by individual tourists posted significant growth, increasing occupancy rates and prices

8

- The demand for a greater number of overnight stays by individual foreign tourists was accompanied by a circa 10% increase in bed numbers in Greek hotels over the last 8 years (from 720,000 beds in 2008 to 800,000 in 2016). Note that the growth in supply was accompanied by a quality upgrade. Specifically, while the percentage of beds in 4-5 star hotels was just 37% in 2008, new beds created over the last 8 years were 80% in 4-5 star hotels. Therefore, capacity at 4-5 star hotels in Greece increased by 30% and accounted for 43% of beds in 2016 (versus 37% in 2008). This improvement is also reflected in the marginally larger size of Greek hotels (an average of 81 beds per hotel versus 76 beds in 2008, and an average of 36 beds for all accommodation establishments versus 34 beds in 2008).
- Given that the increase in beds was less pronounced than the increase in total number of nights spent (10% versus 19%, respectively), Greek hotels improved their occupancy rates. Specifically, after a slight slowdown in the beginning of the crisis (2008-2012), hotel occupancy rates during the months that hotels were open (circa 6 months on average) grew to 53% in 2016 versus 43% in 2012, though still remaining below the average of the main competitor Mediterranean destinations.
- The increase in occupancy rates was reflected in the trend of prices for individual tourists (who account for 45% of total nights spent by foreign tourists in Greek hotels), which grew by 23% in the period 2013-2015, following a decline of 14% in 2008-2013. As a result of this increase, high-season prices in Greek hotels were almost 25% higher than those of the main Mediterranean competitors over the last three years (data from online bookings).



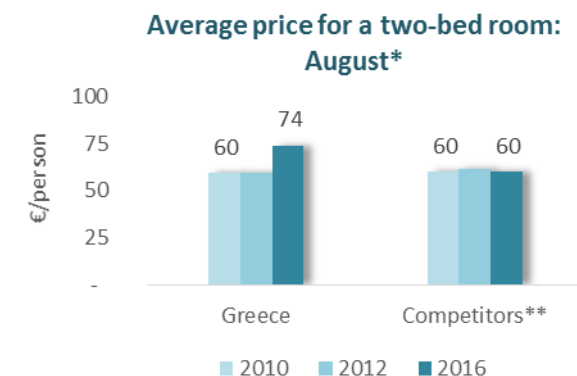
Source: Hellenic Chamber of Hotels, NBG estimates



\* % of occupied bed places taking into account only the periods when hotels are in operation (6 months annually on average)

\*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

Source: Eurostat, NBG estimates



\* based on online bookings of independent travellers (trivago)

\*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

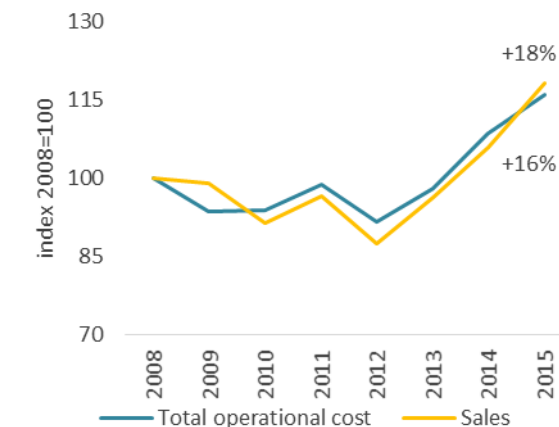
Source: Trivago (Hotel price Index), NBG estimates



## Higher demand combined with improved quality was reflected in the sector's financial results, bringing operational profitability close to 25%

9

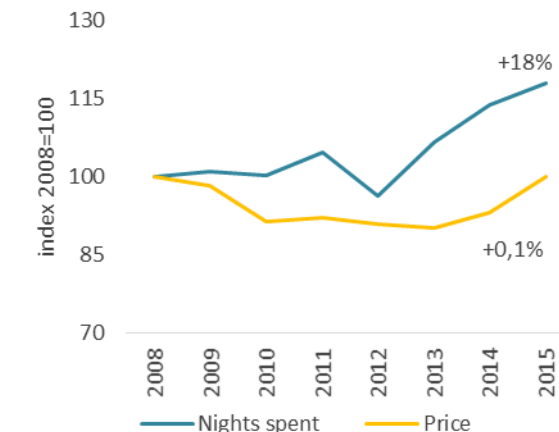
### Main financial aggregates



Sources: Eurostat, El.Stat., ICAP, NBG Estimates

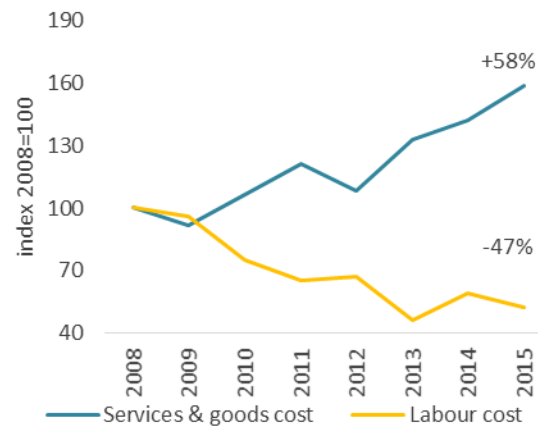
- To sum up the foregoing economic impacts, sales by Greek hotels grew by 18% in the period 2008-2015 reflecting a corresponding increase in the number of nights and stable prices (i.e. prices moving up for individual tourists and down for travel agencies).
- Total operational cost of Greek hotels followed a similar trend to sales, since the improved quality of hotel services which (besides investments in fixed assets) led to higher operational cost for purchases of goods and services (58% in the period 2008-2015) was partially offset by reduction in labour cost.
- Given these conditions, operating profit margins returned over the last four years to pre-crisis levels (24% in 2015 from the low 20% in 2010, and 25% in 2008), though representing hotel operations with lower wages and higher quality of services compared with pre-crisis levels.

### Decomposition of hotels' sales



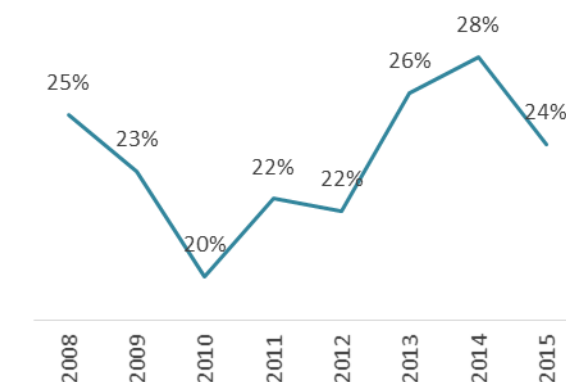
Sources: Eurostat, El.Stat., ICAP, NBG Estimates

### Decomposition of hotels' cost



Sources: Eurostat, El.Stat., ICAP, NBG Estimates

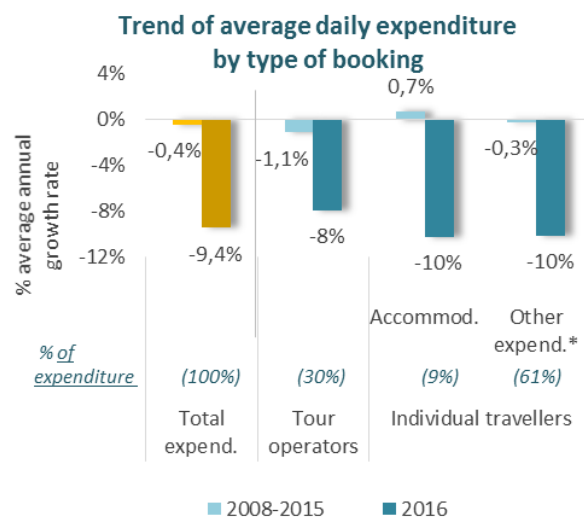
### Ebitda margin



Sources: Eurostat, El.Stat., ICAP, NBG Estimates

Nevertheless, 2016 was impacted by a combination of negative shocks (i.e. instability in the wider region and delayed impact of capital controls) that put pressure on prices...

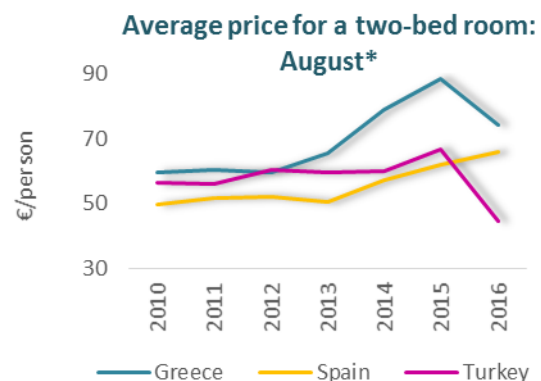
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\* including i) expenditure other than accommodation for tourists staying in hotels and ii) total expenditure of tourists not staying in hotels.

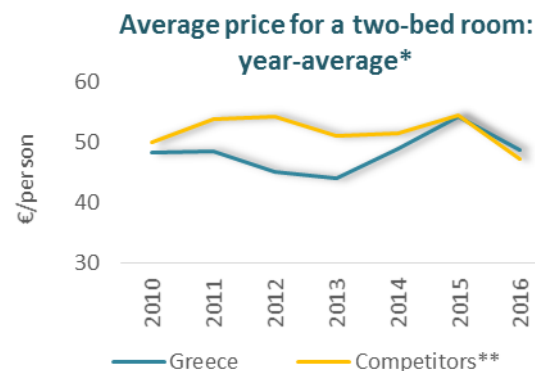
Source: Eurostat, Bank of Greece, NBG estimates

- The upward trend in the sector was subject to a combination of shocks in 2016 putting a temporary brake on its growth momentum. Specifically, the imposition of capital controls and conditions of high political uncertainty in Greece in summer 2015 meant that hotels were in a disadvantageous position when negotiating prices with agencies for the 2016 packages, with the result that prices were forced down by 8%.
- Along with the high uncertainty among hotel owners that led them to arrange early bookings at low prices, the unstable climate in Turkey (combined with increased migration flows) created further pressure on individual bookings as well, thus pushing prices of online sales down by 10% in 2016 (and 16% for the high season), impacting likewise overall prices in the sector.
- This decline in prices, combined with a lower rate of foreign tourists staying in hotels -- as opposed to rented rooms or homes -- during their stay in the country (accounting for 41% of nights spent by foreign tourists in 2016 versus 42% in 2015), served to push down average daily expenditure by foreign tourists by 9.4% (to €67 in 2016 from €74 in 2015).



\* based on online bookings of independent travellers (trivago)

Source: Trivago (Hotel Price Index), NBG estimates



\*based on online bookings of independent traveller (trivago)

\*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

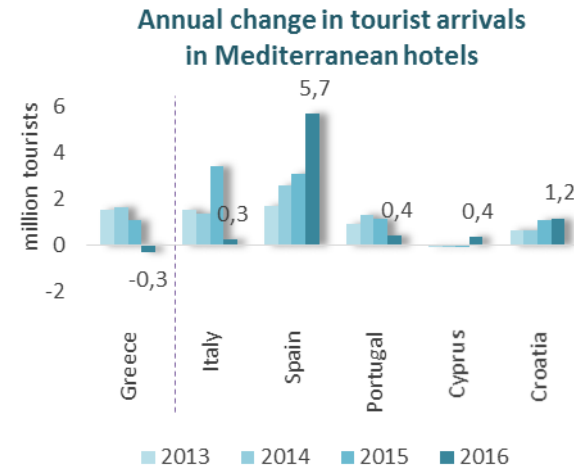
Source: Trivago (Hotel Price Index), NBG estimates



Source: Eurostat, Bank of Greece, NBG estimates

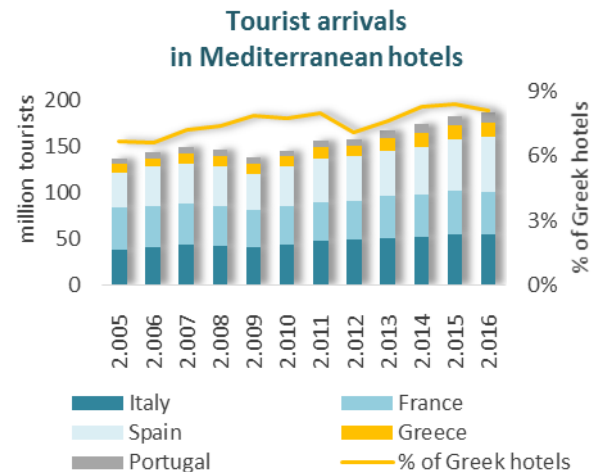
## ... and put a brake on growth of foreign tourist bookings at Greek hotels

11



Source: Eurostat, Bank of Greece, NBG estimates

- With regard to arrivals in 2016, the conditions of political uncertainty prevailing in Turkey led to losses of 11 million foreign tourists from the Turkish market (of which approximately ½ are estimated to have sought hotel accommodation). The country that benefited most from this redirection of tourist flows was Spain, where high room occupancy was boosted by 10% in 2016 (versus 6% in 2015) due to the growth in foreign tourist arrivals, along with a corresponding increase in receipts (since prices remained virtually unchanged).
- On the other hand, under the pressure of instability in the region, foreign tourist arrivals at Greek hotels fell by 2% (i.e. 0.3 million tourists), thus reducing the country's share of the Mediterranean hotel market to 8% in 2016 vs 8.4% in 2015 (ending the sustained upward trend of Greece's share after 2012, when it stood at 7%).
- It is worth noting that Greek hotels managed to offset the decline in foreign tourist arrivals with Greek tourist bookings, thereby posting relatively unchanged total arrivals in 2016, while room occupancy also remained unchanged.



Source: Eurostat, Bank of Greece, NBG estimates



Source: Eurostat, NBG estimates



Source: Eurostat, Bank of Greece, NBG estimates

❑ Tourism and hotels

- Demand
- Supply
- Prices
- 2016 developments

❑ Quality of the tourist mix

- Development over time and impact on receipts
- Findings of NBG survey on Greek hotels

❑ Seasonality

- Impact on strategy and sector performance
- Findings of NBG survey on Greek hotels

❑ Future prospects

- Estimates for 2017
- Medium-term outlook

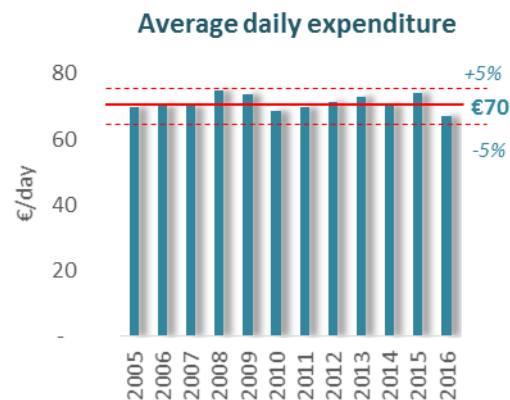
❑ Annex

- Mapping the SME segment in Greece
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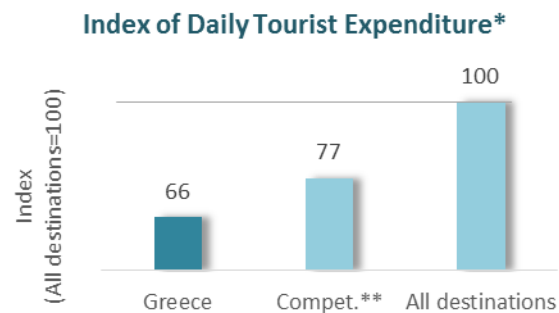
## Apart from occasional fluctuations, daily tourist expenditure in Greece seems to remain at a relatively low level...

13

- More important than the short-term fluctuations in daily tourist expenditure (half of which is spent at the hotels) is the fact that over the past decade it has remained at circa €70 (approximately €95 for tourists staying in hotels and €55 for the rest) - an amount significantly lower than the average in competitor countries.
- Specifically, since the measurement of tourist expenditure is been conducted using a different methodology in each country, the estimates on tourist expenditure in the various destination countries are not comparable. In this light, we constructed an Index of Daily Tourist Expenditure for each destination country using the data as measured by the countries of origin of the tourists. According to our estimations, the average European tourist spends 15% less on a daily basis in Greece than in competitor destination countries (and 34% less than total tourist destinations). Note that the average share of foreign tourists staying in hotels in Greece is on average close to the share of competitor destinations (circa 40% in terms of nights)\*.
- As regards the length of stay, despite the fact that the total tourism flows in Greece follow the international trend for fewer overnight stays, the reduction of the length of stay mainly concerns tourists staying in accommodation establishments other than hotels (with an estimated decrease of 38% in 2008-2016) while the number of overnight stays of foreign tourists in Greek hotels seems to have declined only slightly to 5.2 days in 2016 versus 5.4 days in 2008 (due to an increased contribution of individual tourists staying for fewer days versus vacation packages).

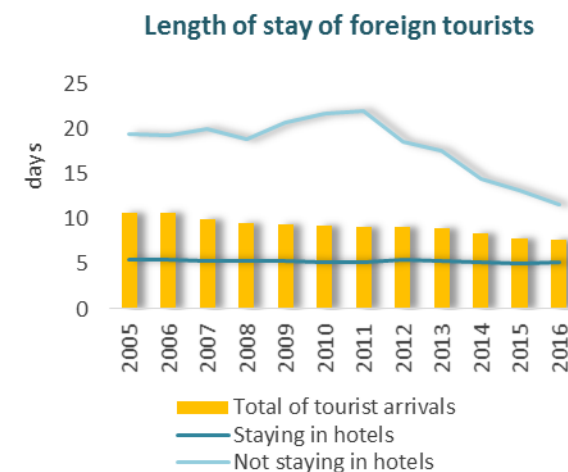


source: Bank of Greece, NBG estimates



\* Measured by tourist expenditure of Europeans in each destination, as declared in the country of origin  
 \*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

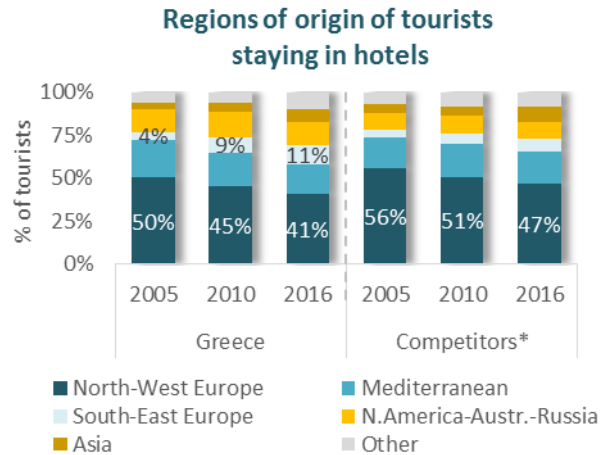
Source: Bank of Greece, Eurostat, NBG estimates



Source: Eurostat, Bank of Greece, NBG estimates

## ... and reflect the tourist quality mix in Greek hotels

14

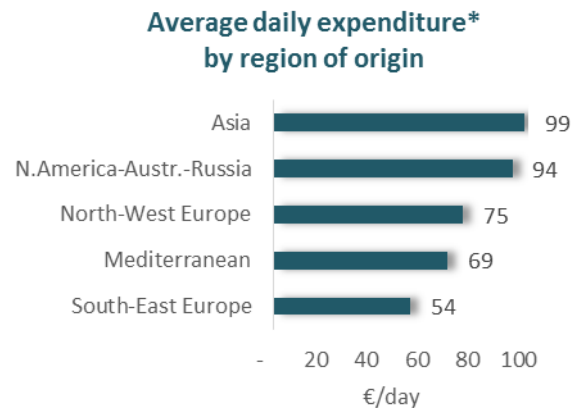


\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey  
Source: Eurostat, Turkey Statistics, NBG estimates

Turning to the progress over time of the foreign tourist mix in Greece, we note that the quality improvement in terms of supply has not been accompanied by a corresponding quality improvement in the mix of foreign tourists, mainly due to two adverse factors:

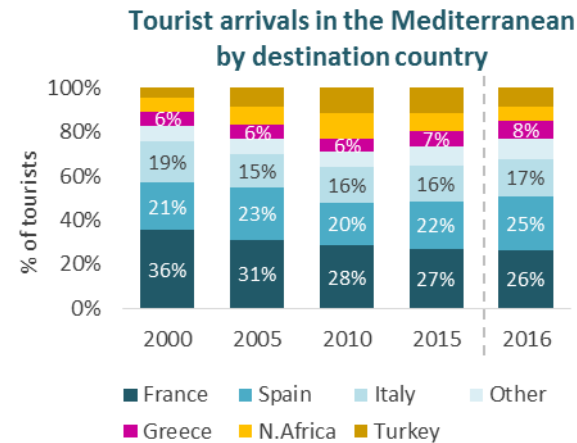
- ✓ The share of tourists from high-spending countries (North America, Australia, West Europe) is gradually decreasing due to the surge in tourist flows from SE Europe countries (whose share reached 11% in 2016 versus 4% in 2005) after (i) the improvement of the relevant road infrastructures (border stations and Egnatia Odos) and (ii) the increase in per capita income of these countries.
- ✓ At the same time, Greece over the past six years has raised its share of the Mediterranean arrivals market (to 8% from 6%), by gaining share from destinations of low tourist expenditure (mainly countries such as N. Africa and Turkey).

The deterioration the quality mix of the tourist flows is supported by NBG survey of a sample of 200 SMEs hotels, who saw a reduction in their share of high-income tourists in the period 2008-2016 (from 27% to 23% of their foreign visitors).

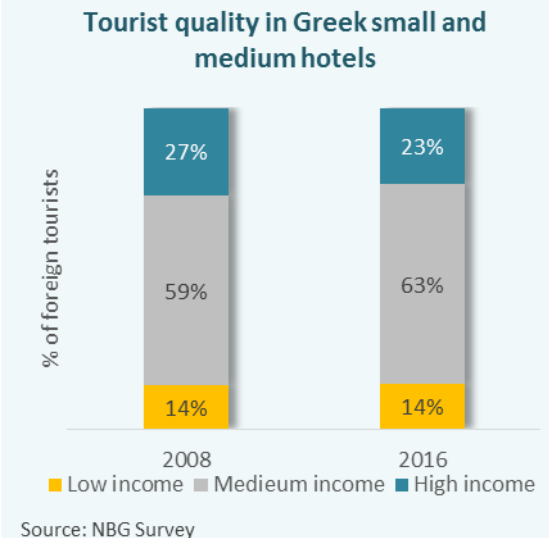


\* Including accommodation and other expenditure of all tourists (either they stay in hotels or not)

Source: Bank of Greece, UNWTO, NBG estimates



Source: WorldBank, UNWTO, Eurostat, NBG estimates

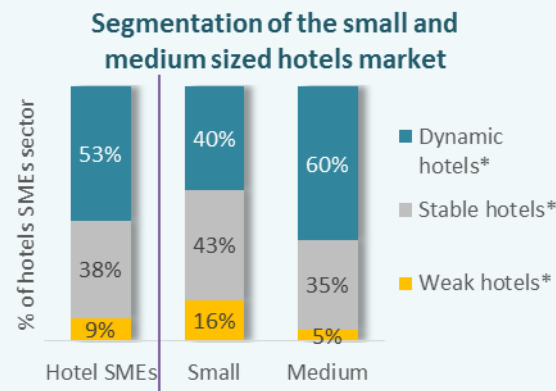


Source: NBG Survey

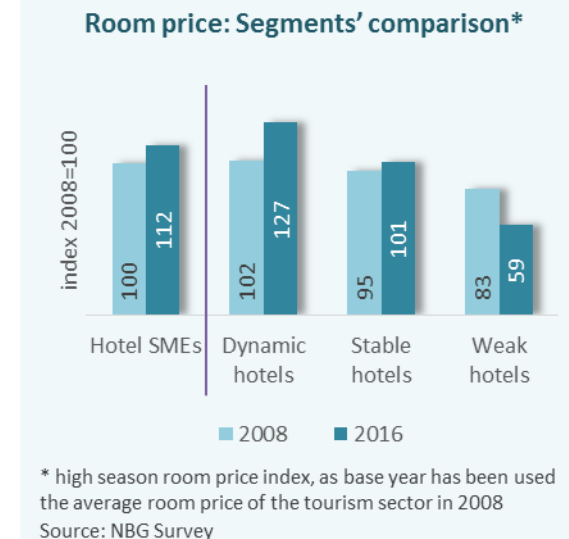
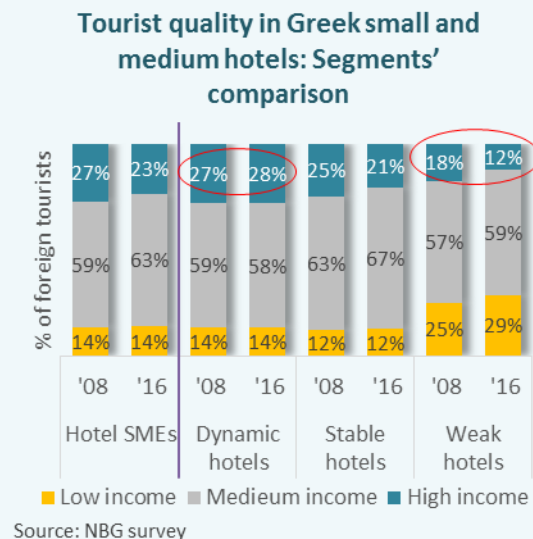
## NBG survey indicates that the deterioration in the tourist mix has not been uniform across all hotels ...

15

- Focusing on the theme of the qualitative composition of tourists, we note that the deterioration of the tourist mix in Greek hotels has not been uniform. More specifically, on the one hand we have the dynamic hotel SMEs (comprising 53% of the sector in terms of sales or 26% in terms of number of businesses), which achieved increased sales during the period 2008-2016, standing out both for the high participation rate of high-income tourists and their marginal improvement (28% in 2016 versus 27% in 2008). At the other end of the spectrum stand the weaker businesses (comprising 9% of the sector in terms of sales or 25% in terms of number of businesses), which saw their sales falling during the same period, showing on one hand a high participation of low-income tourists among their clientele (29% in 2016) and on the other hand a constantly falling participation rate of high-income tourists that are being replaced by those of low-income (just 12% in 2016 versus 18% in 2008).
- This qualitative diversification also had an impact on room prices, with dynamic hotels increasing their price spread in comparison with weak hotels to 115% in 2016 versus 23% in 2008.
- It is important to underline that a hotel's dynamism is not just a matter of size. Indeed, the more dynamic hotels are mostly larger in size, though 40% of small hotels also fall under this category of hotels reporting increased sales during the period 2008-2016 (versus a 60% share for medium sized hotels).



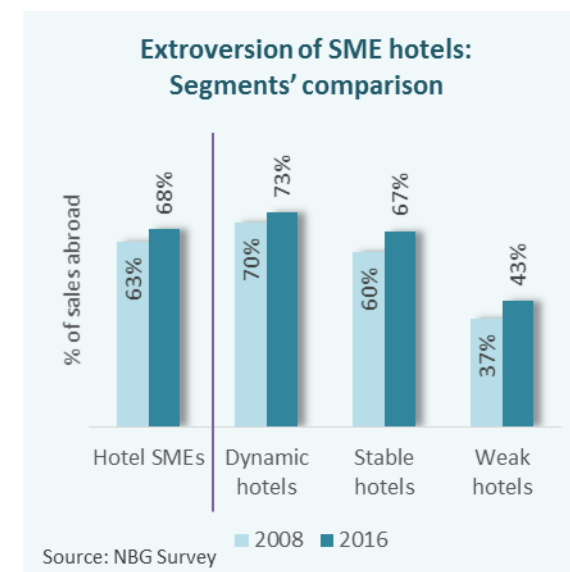
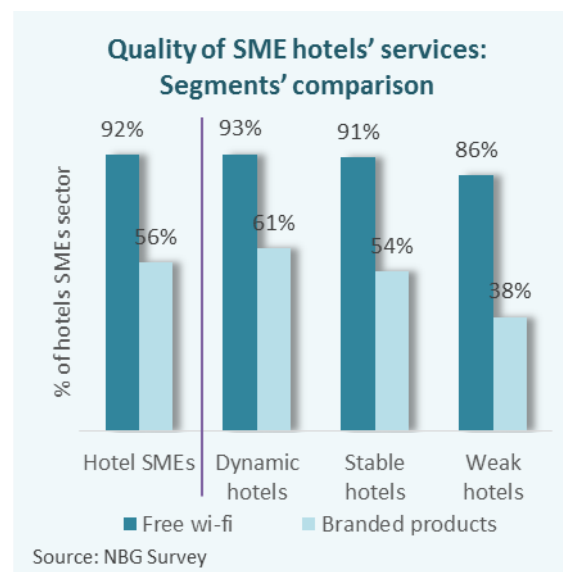
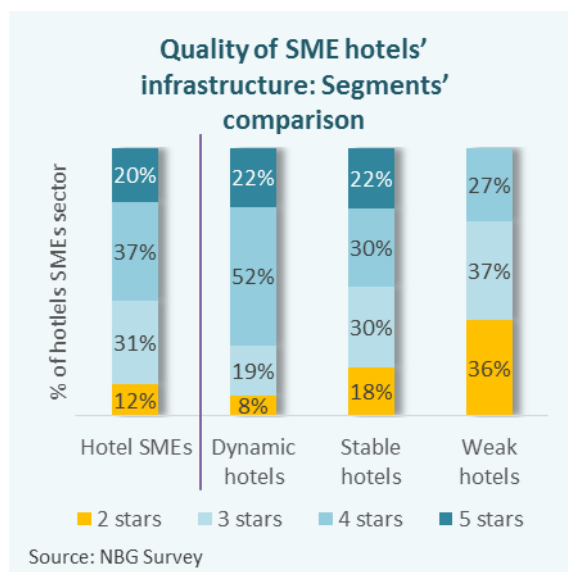
\* Hotel dynamism is defined based on its sale growth over 2008-2016, with the cutting points for the segments being +/-1% average annual change  
The data refer to the period 2008 - 2016  
Source: NBG Survey



## ... but mainly derived from poor quality hotels in terms of infrastructures and services, which sought to boost their sales by attracting low-income tourists from abroad...

16

- ❑ The more dynamic hotel SMEs (with a positive sales trend, premium room rates and high-quality tourists) rely on the higher quality of their infrastructure and services provided (as indicatively reflected in the high ratio of branded products included in the meals offered).
- ❑ On the other hand, the weaker hotels, being less outward oriented (with circa 60% of clientele being Greeks, versus under 30% in the case of the dynamic hotels), faced a severe need for rapid enhancement of performance due to the waning domestic demand. However, the poorer quality of their infrastructure (with just 27% are 4-star or over, compared with 74% in the case of those that have experienced increased sales\*), combined with the lower quality services offered to their visitors, has adversely affected their ability to attract high-income tourists from the traditional and economically developed European markets, forcing them to switch to the markets of the Balkans and Eastern Europe.
- ❑ Accordingly, the impact of these weak hotels is two-pronged: On the one hand, they serve to increase foreign tourist arrivals but at the same time they have an adverse effect on the quality mix of foreign tourists in Greece.



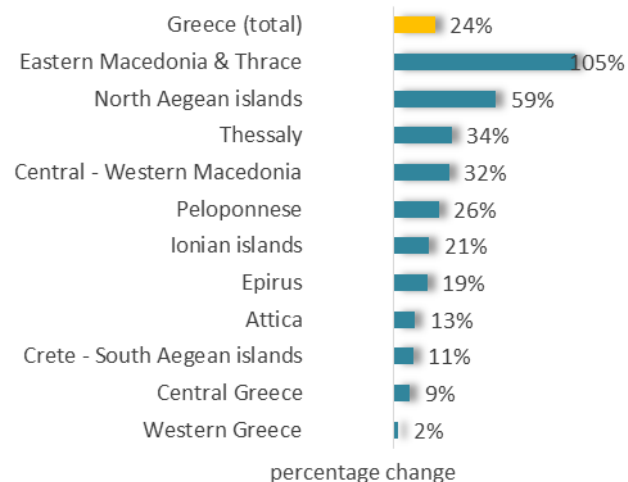
\* NBG's field survey data are weighted on the basis of sales, and accordingly are not comparable with the corresponding data of the Hellenic Statistical Authority.



## ... a conclusion that is also confirmed by regional data on Greek tourism

17

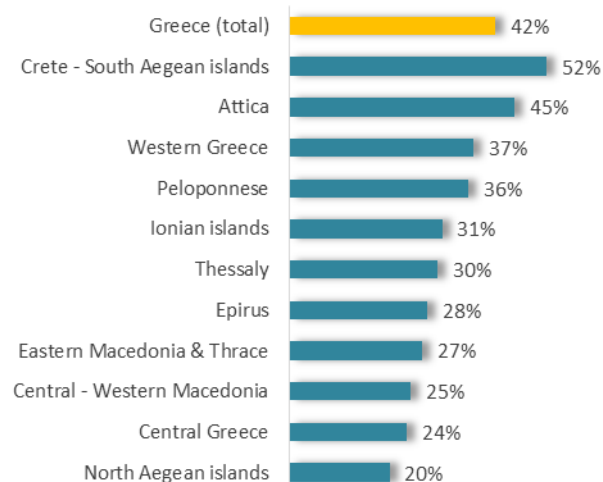
### Greek hotels extroversion (change in 2008-2015)



Source: El.Stat., NBG Estimates

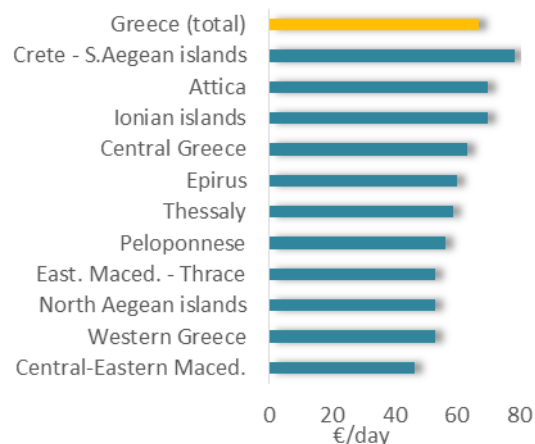
- Based on a business data analysis from the ICAP database, we concluded that poor quality hotels are overwhelmingly concentrated in certain regions (mainly in Northern Greece), i.e. 1/2 in Macedonia and Thrace versus 12% in Crete and the South Aegean in terms of SME numbers.
- These regions were marked by increased export activity (e.g. more than double in Eastern Macedonia and Thrace, i.e. 46% in 2015 versus 22% in 2008) to counterbalance the marked decline in Greek tourists (32% in Eastern Macedonia and Thrace in the period 2008-2015 versus 18% in Greece as a whole). Due to the relatively poor quality of their infrastructures (just 1/4 of accommodation establishments in Northern Greece is 4 or 5-star versus 1/2 in Crete and the South Aegean) these hotels understandably sought to attract tourists with lower daily spending (circa €50 versus €80 for Crete and the South Aegean). Note that nearly 1/2 of tourists in Central and Western Macedonia come from Balkan countries, including however a significant share of German tourists (22%), who nevertheless spend 1/2 of the amount spent in Crete and the South Aegean (€40 versus €80).
- At the same time, given that tourists from Balkan countries constitute the main market of hotel guests in Northern Greece, the presence of lower quality and cheaper hotels in these regions lead to a mutually beneficial equilibrium.

### 4 & 5 stars hotels



Source: El.Stat., NBG Estimates

### Average daily expenditure by region of destination



Source: Bank of Greece, NBG estimates

Average daily expenditure by Greek region and by country of origin					
Crete - South Aegean islands (highest daily expenditure)			Central-Eastern Macedonia (lowest daily expenditure)		
Origin	% share in nights	Avg daily exp.	Origin	% share in nights	Avg daily exp.
Germany	22%	81	Germany	22%	40
Un. Kingdom	14%	78	Serbia	12%	45
France	10%	84	F.Y.R.O.M.	12%	40
Italy	7%	66	Bulgaria	11%	38
Netherlands	6%	67	Romania	9%	51
Russia	4%	74	Albania	7%	28
U.S.A.	3%	113	Cyprus	6%	40
Poland	2%	62	Un. Kingdom	4%	61
Belgium	2%	79	Russia	4%	69
Region total		70%	86%		46

Source: Bank of Greece, NBG estimates

❑ Tourism and hotels

- Demand
- Supply
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❑ Quality of the tourist mix

- Development over time and impact on receipts
- Findings of NBG survey on Greek hotels

❑ Seasonality

- Impact on strategy and sector performance
- Findings of NBG survey on Greek hotels

❑ Future prospects

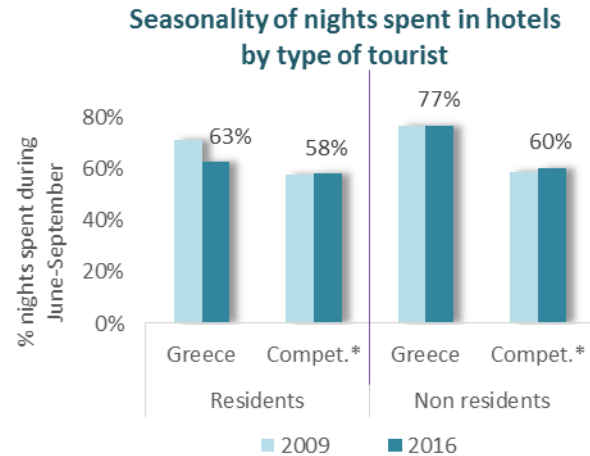
- Estimates for 2017
- Medium-term outlook

❑ Annex

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## High seasonality is the second structural problem of Greek tourism...

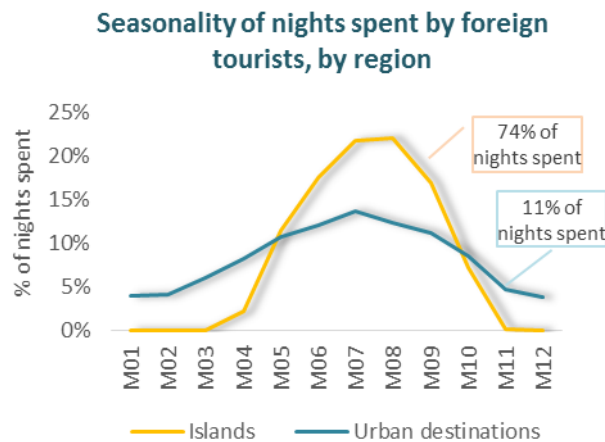
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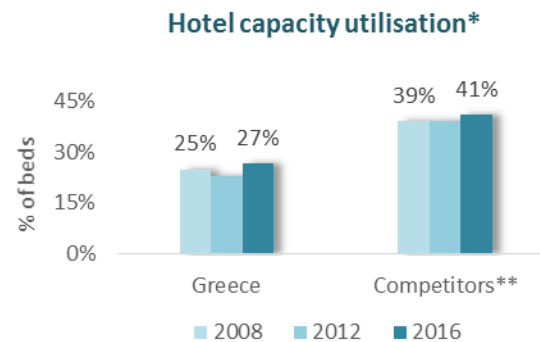
\* Italy, Spain, Portugal, Cyprus, Croatia

Source: Eurostat, NBG estimates

- Besides low daily expenditure, a significant feature of Greek tourism is high seasonality, with over 3/4 of foreign tourists' overnight stays being in June-September (versus 60% for its main competitors). The problem is mainly on island locations (covering 3/4 of foreign tourists' stays), where seasonality exceeds 80% of overnight stays during the 4 high-season months (compare with respective seasonality of circa 50% for urban destinations).
- As a result of high seasonality, the annual occupancy rate in Greece is low, amounting to 27% of beds (including the months when hotels remain closed), compared with 40% on average in competitor countries.
- In order to cope with the problem of intense seasonality, Greek hotels resort to significantly increasing their prices during July and August, considerably higher than in low-season (up by 60% on the islands and 23% in urban destinations). As a result Greek hotel prices in July-August are 12% higher than those of their competitors (while 15% lower during the remaining months).



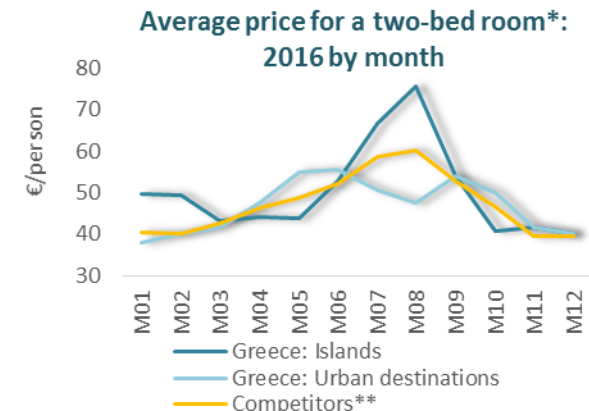
Source: EL.STAT., Eurostat, NBG estimates



\* % of occupied bed places for all 12 months (including periods when hotels may be closed - 6 months annually on average).

\*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

Source: Eurostat, NBG estimates



\*based on online bookings of independent traveller (trivago)s

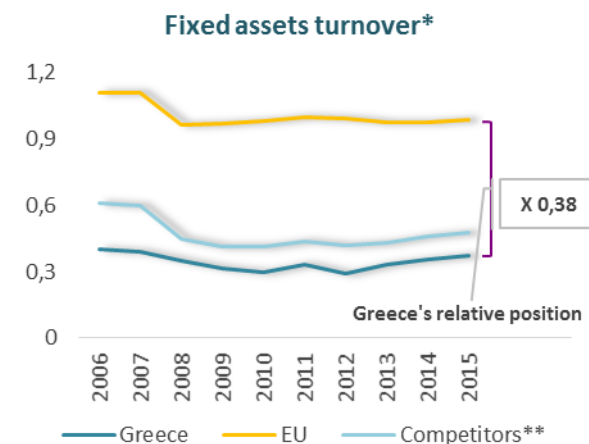
\*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

Source: Trivago (Hotel Price Index), NBG estimates

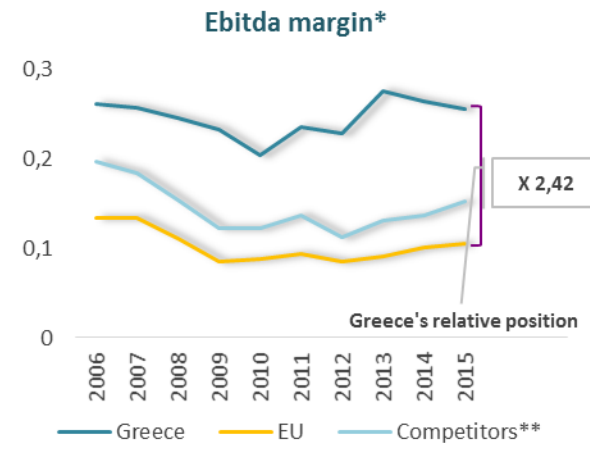
## ... and tends to limit the return on hotel investments, despite the profitability generated by high prices in the summer ...

20

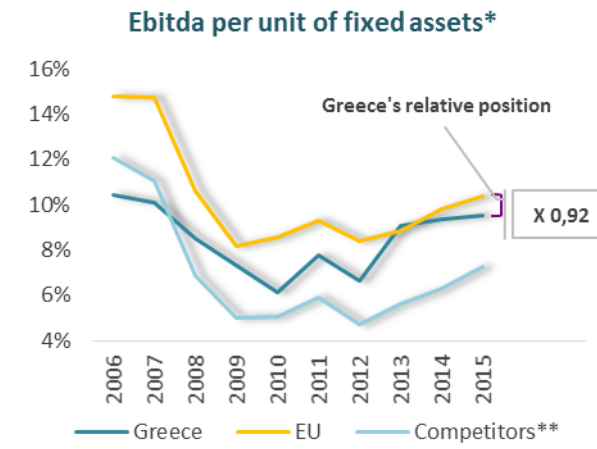
- High seasonality of demand in Greek hotels is reflected in their financial performance, particularly their low fixed asset turnover (0.34 compared with 1.00 for European and 0.48 for Mediterranean hotel SMEs). The above performance is partially offset by the high-season pricing policy, which generates for Greek small and medium hotels high annual operating profitability of 25% versus 11% in Europe and 15% for their main Mediterranean competitors. Since 2010, operating profitability has been following an upward trend on the back of rising prices, resulting in full recovery (from the fall in prices of the previous period) and stabilization to pre-crisis levels. Note that high profit margins may partially reflect the fact that, due to high seasonality, Greek hotels remain open fewer months compared with competitor destinations (i.e. 5 months on average versus 7).
- Accordingly, high profit margins help narrow the gap between Greece and Europe as regards the performance of tourist infrastructure, which from 60% lower in terms of sales per fixed assets unit ends up 8% lower in terms of operating profitability per fixed assets unit. In spite of closing the gap, Greek hotel SMEs could achieve much better performance by extending the tourist period, taking advantage of their higher profit margins that are an indication of the higher natural competitiveness of the Greek tourist product.



\* Comparison between SMEs  
 \*\* Spain & Italy  
 Sources: ICAP, BACH database, NBG Estimates



\* Comparison between SMEs  
 \*\* Spain & Italy  
 Sources: ICAP, BACH database, NBG Estimates

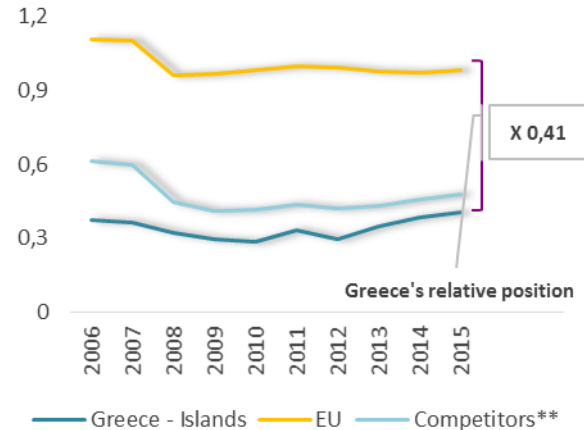


\* Comparison between SMEs  
 \*\* Spain & Italy  
 Sources: ICAP, BACH database, NBG Estimates

... with profitability being even higher at the hotels on the islands

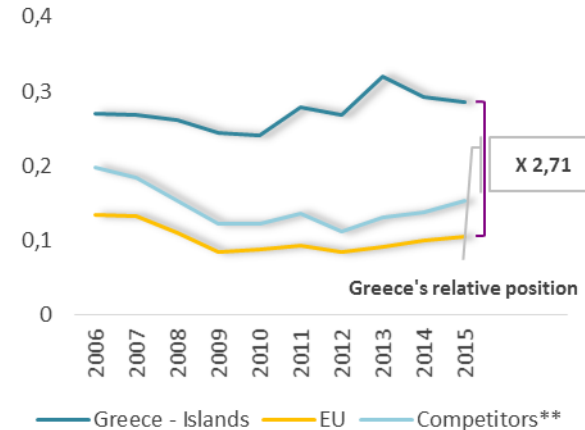
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Fixed assets turnover\*



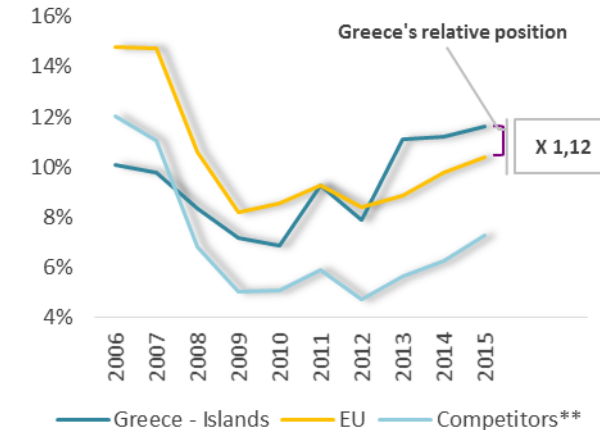
\* Comparison between SMEs  
\*\* Spain & Italy  
Sources: ICAP, BACH database, NBG Estimates

Ebitda margin\*



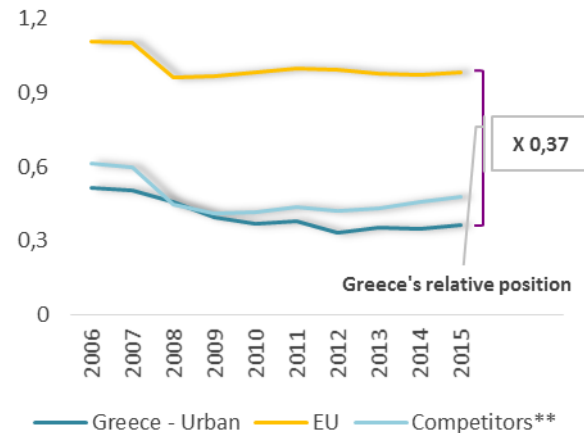
\* Comparison between SMEs  
\*\* Spain & Italy  
Sources: ICAP, BACH database, NBG Estimates

Ebitda per unit of fixed assets\*



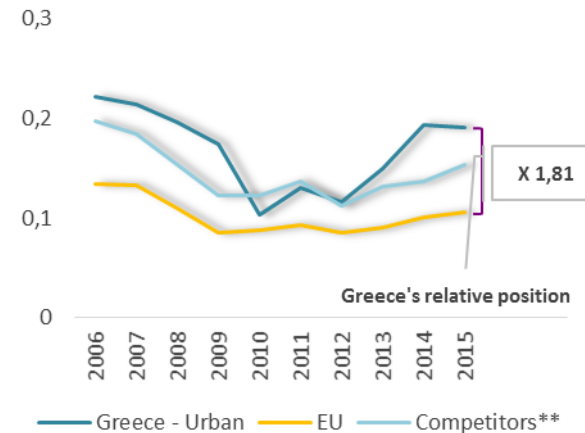
\* Comparison between SMEs  
\*\* Spain & Italy  
Sources: ICAP, BACH database, NBG Estimates

Fixed assets turnover\*



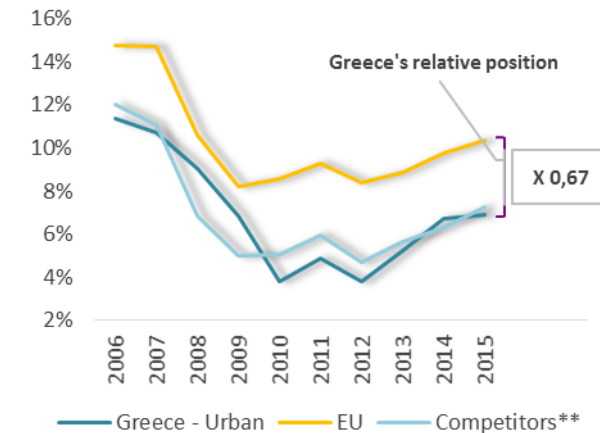
\* Comparison between SMEs  
\*\* Spain & Italy  
Sources: ICAP, BACH database, NBG Estimates

Ebitda margin\*



\* Comparison between SMEs  
\*\* Spain & Italy  
Sources: ICAP, BACH database, NBG Estimates

Ebitda per unit of fixed assets\*



\* Comparison between SMEs  
\*\* Spain & Italy  
Sources: ICAP, BACH database, NBG Estimates

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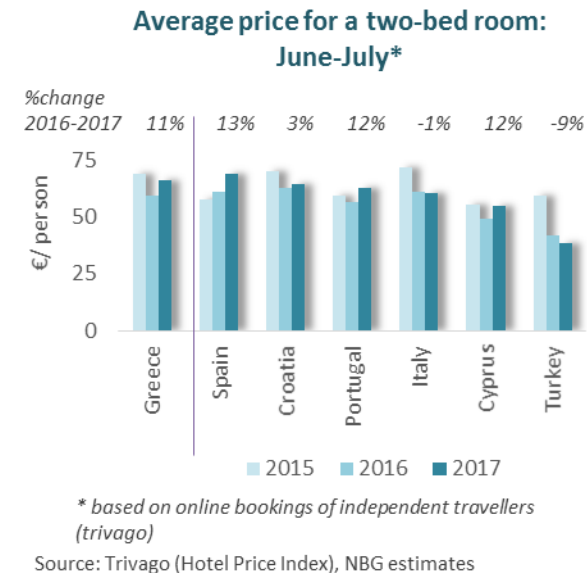
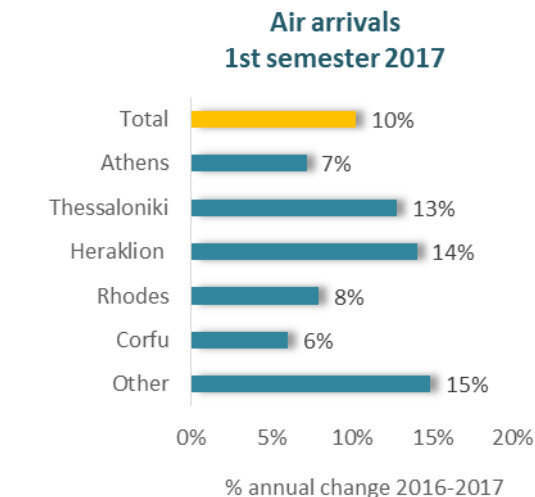
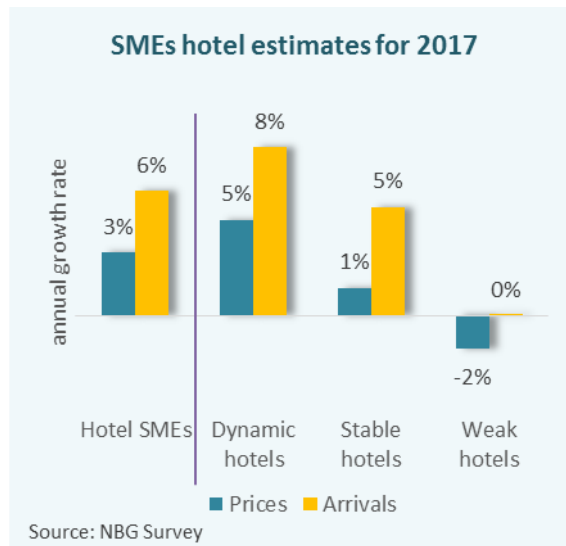
❑ Annex

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## For 2017, the first signs of the market are positive, in line with the findings of the NBG survey

23

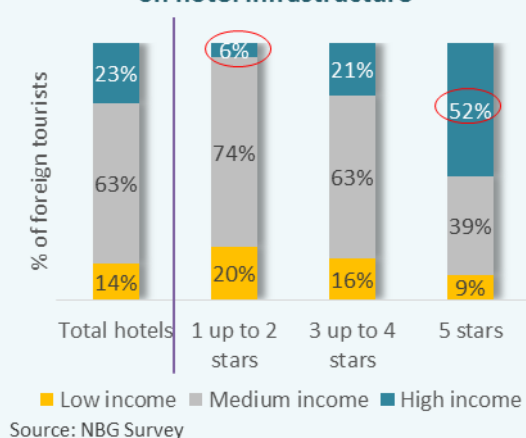
- As regards the sector's near-term outlook, market estimates as well as the first data for the year converge on an enhanced performance for 2017. Specifically:
  - ✓ Inbound arrivals are expected to be up as i) small and medium hotels (based on the NBG survey) estimate a 6% increase, ii) passenger traffic at Greek airports in the first semester of 2017 was up by 10.3% year-on-year (approximately 15% in Crete and the Aegean islands), and iii) according to data already published, foreign tourists are up by 3% during the first 5 months (while the increase at hotels amounted to 15% during the first 4 months of 2017).
  - ✓ Prices are also estimated to follow an upward trend, with small and medium hotels expecting a 3% increase in high season, and the prices of online booking for all hotels in summer 2017 up by 11% year-on-year. Note that Spain also posts an upward trend in prices (up by 13% for the summer 2017) and in occupancy rates (49% in the first quarter of 2017 versus 45% in the first quarter of 2016), while Turkey continues to be under pressure (with its hotel prices in € in summer 2017 falling by 9% year-on-year).



## On a medium-term horizon, the upgrade of Greek hotel quality appears to be on the right path to improving the quality of the tourist mix, though it does not seem to alleviate the problem of marked seasonality

24

**Tourist quality in Greek small and medium hotels: Comparison based on hotel infrastructure**

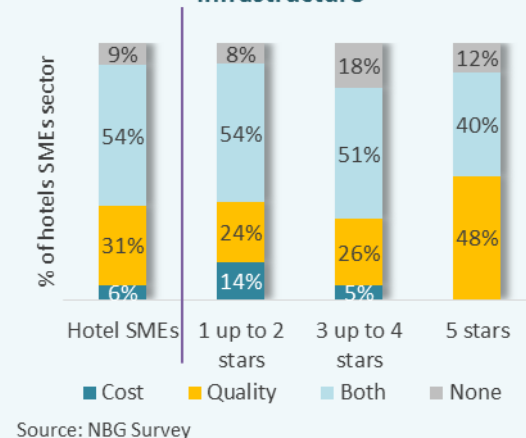


Improvement of the tourist mix is directly linked to the quality of hotel services (5-star hotels attract at a rate of 52% high-income guests vs 6% for hotels with fewer stars). In this regard, the top-end hotel sector, which is steadily increasing its share, seems to be on the right path, as:

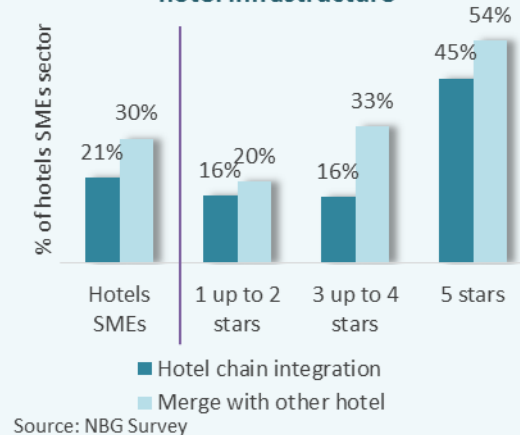
- ✓ It focuses on upgrading the quality of services provided (48% of 5-star hotels stating this as its main strategy, compared with 24% of hotels with fewer stars).
- ✓ The intention of 5-star hotels to enter into wider synergies aimed at economies of scale is positive, since the ongoing quality upgrade in the context of vigorous competition requires significant financial resources.

However, hotel quality appears to be insufficient to mitigate the problem of the high seasonality of Greek tourism. Specifically, according to this survey, the differences in terms of seasonality between 5-star hotels and hotels with less than 2 stars are very few, with almost 50% of revenues earned in both cases during the 2-month high-demand period.

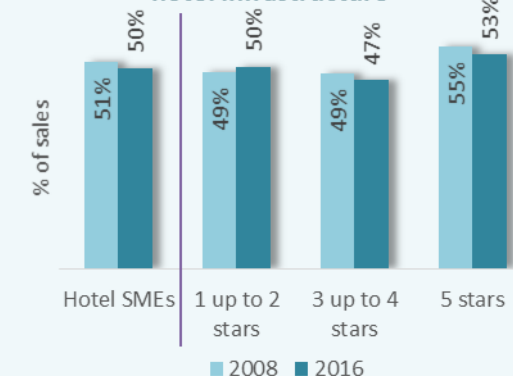
**Main strategic goal of SME hotels: Comparison based on hotel infrastructure**



**Positive attitude towards cooperation: Comparison based on hotel infrastructure**



**Seasonality: Comparison based on hotel infrastructure\***



\* percentage of sales during the 2 months with the higher demand  
Source: NBG Survey



## Tourist receipts in Greece can be boosted by €5 billion per year (over 1/2 of which channelled to hotels)...

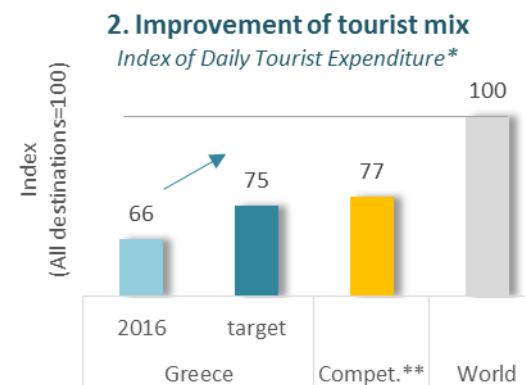
25

- ❑ The long-term trend appears positive for international tourism, with international arrivals expected to reach 1.8 billion tourists by 2030 compared with 1.2 billion in 2015 (and 0.8 billion in 2005), mainly due to increased tourist flows from Asia.
- ❑ Greece can leverage the positive international climate and achieve similar operating results in terms of seasonality and tourist mix as those of its direct competitor destinations (Italy, Spain, Portugal, Cyprus, Croatia, Turkey). Specifically:
  - ✓ An expansion of the tourist season (while maintaining the current tourist levels in the summer) so that occupancy rates during the low season reach levels similar to those of our competitors (64% vs 56% in 2016 in Greece) would result in an increase of overnight stays (and therefore revenues) by 22%.
  - ✓ As regards tourist quality, Greece's potential to approach the standards of its competitors can be estimated by taking into consideration its geographical location and the consumer habits of the main countries of origin of its tourists. Given that Greece (i) borders the Balkan countries and (ii) is located further away from the main countries of origin of European tourists (compared with competitor countries), its tourist mix is different to that of its competitors. Keeping the Greek tourism mix at its current structure and giving to each country of origin the average daily expenditure in competitor countries, we estimate a potential Index of Daily Tourist Expenditure for Greece, which is 14% higher than the current level – an indication of Greece's capability to increase daily expenditure by foreign tourists (both in hotels and elsewhere).
- ❑ Combining the above effects, Greek tourism could increase its receipts by 40% (€5 billion on an annual basis).



\* Assuming nights spent during the high-season remain the same  
 \*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

Source: Eurostat, turkey statistics, NBG estimates



\* Measured by tourist expenditure of Europeans in each destination, as declared in the country of origin

\*\* Italy, Spain, Portugal, Cyprus, Croatia, Turkey

Source: Bank of Greece, Eurostat, NBG estimates

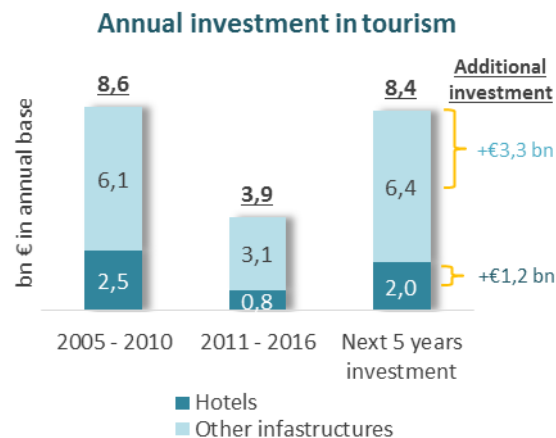


Source: Bank of Greece, NBG estimates

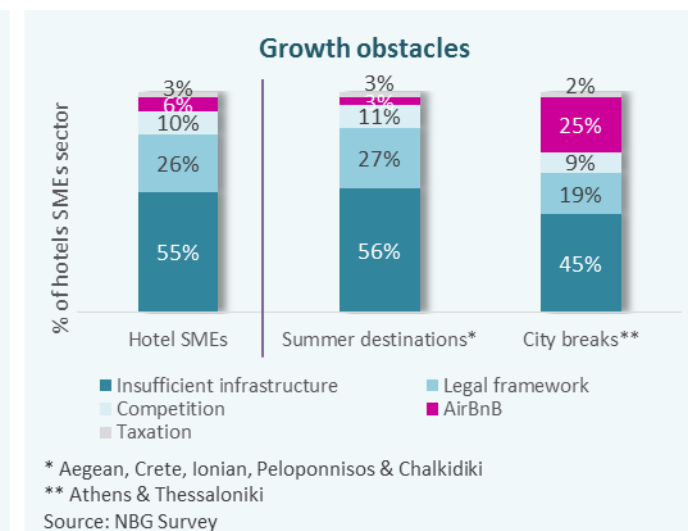
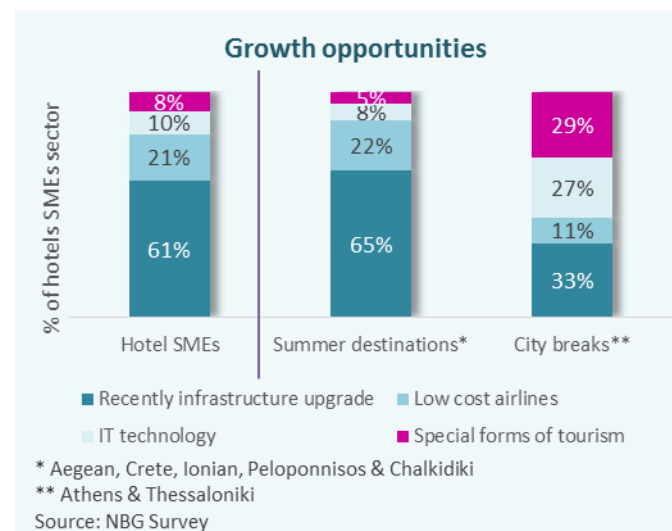
## ...by investing a further €4.5 billion annually over a 5-year horizon

26

- On the basis of fixed asset turnover of Greek hotels (corrected for the estimated improvement in seasonality), additional hotel investment needed to achieve the revenue target on a 5-year horizon is around €1.2 billion annually – thus simply restoring investment to its pre-crisis level (near €2 billion annually versus €0.8 billion in 2010-2015). Upgraded infrastructure should attract higher-income tourists, a development that will enhance both hotel prices as well as consumption of goods and services.
- At this point we should note that hotel investment are not sufficient, on their own, to attract more tourists. Investment is also needed in other tourism infrastructures such as roads, ports, airports, archaeological sites etc. Particularly, according to the Travel and Tourism Competitiveness Index of the World Economic Forum (WEF), Greece appears to be near the average of its main competitors, with an advantage in terms of natural environment but a significant lag in infrastructure. Furthermore, the significance of infrastructure is confirmed by the NBG survey, as hotel SMEs acknowledge it as a key factor affecting their business operations (61% as an opportunity and 55% as an obstacle). On the basis of the share of hotel investment in total tourism investment over the past 10 years, investment in infrastructure other than hotels need to be increased by €3.3 billion annually - corresponding to an annual increase of total tourism investment of €4.5 billion (compared with €3.9 billion in 2010-2015 and €8.6 billion in 2005-2010).
- In addition, the problem of marked seasonality could be addressed by promoting city destinations, with hotels in these areas stressing that special forms of tourism (conference, medical, sports etc.) could serve as key potential drivers of growth.



Sources: Eurostat, WTTC, NBG Estimates



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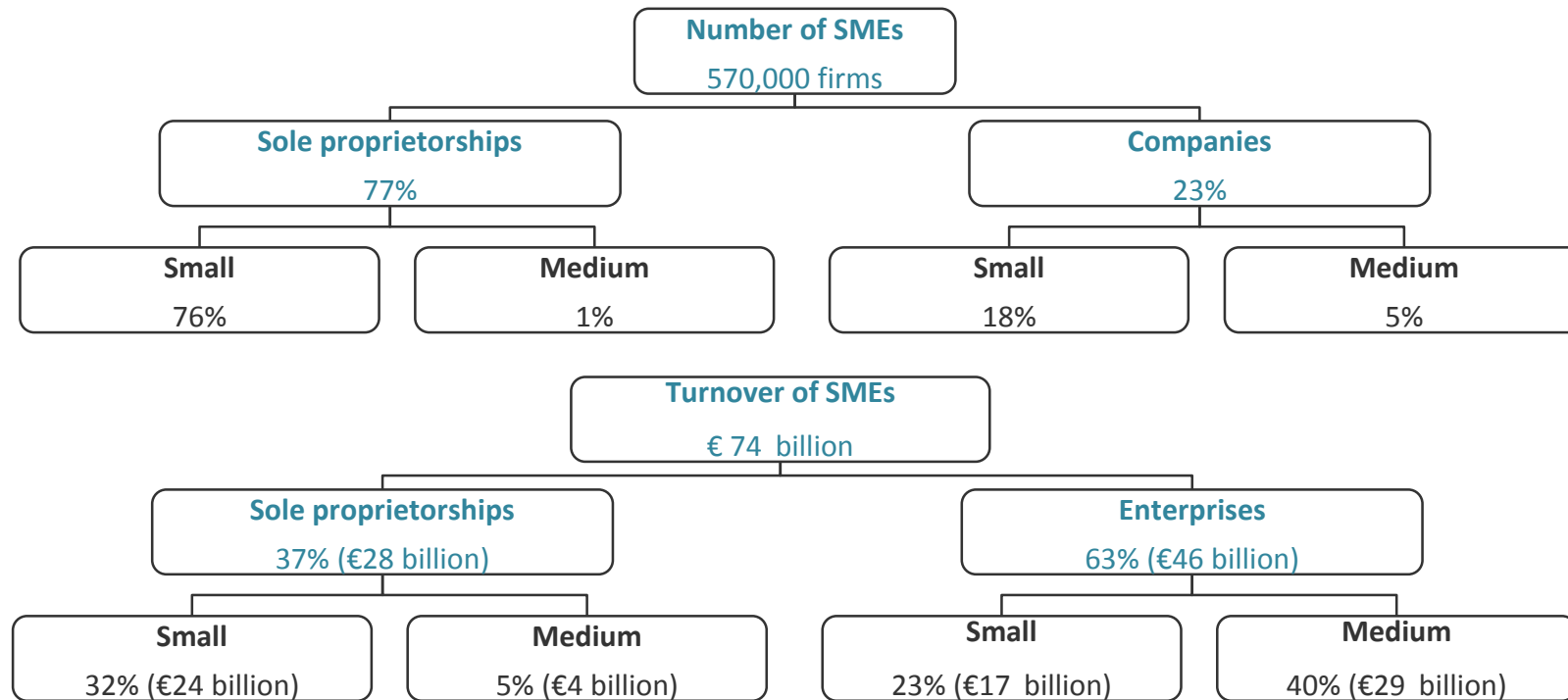
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❑ Annex

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## Mapping the SME segment in Greece

28



*\* For the purposes of the survey, **small** enterprises are those reporting turnover of less than €1 million and **medium-sized** enterprises are those reporting turnover of between €1 million and €10 million.*

Source: SBA Factsheet 2015, Eurostat, EL.STAT Company Register, NBG Estimates

- ❑ The circa 570,000 SMEs in Greece generate turnover of around €74 billion.
- ❑ 4/5 of SMEs are sole proprietorships, which account for a corresponding share of the total domestic business sector (compared with just ½ of the business sector in Europe).
- ❑ Although sole proprietorships comprise the majority of SMEs, the greater share of turnover (over 60%) is generated by companies of various legal status (SA, limited partnership, limited liability, etc.).

## Sample Description

29

Distribution of number of companies of sample*						Percentage mix of SMEs by sector* (based on turnover)					
Turnover (in millions €)	Manufacturing	Services	Trade	Construction	Total SMEs	Turnover (in millions €)	Manufacturing	Services	Trade	Construction	Total SMEs
1: (0 - 0,1]	45	73	45	30	193	1: (0 - 0,1]	1%	5%	2%	1%	9%
2: (0.1 - 0,5]	45	73	45	30	193	2: (0.1 - 0,5]	3%	6%	12%	1%	22%
3: (0.5 - 1]	45	74	45	30	194	3: (0.5 - 1]	2%	3%	9%	1%	15%
4: (1 - 2,5]	45	74	45	30	194	4: (1 - 2,5]	3%	3%	11%	1%	18%
5: (2,5 - 5]	45	73	45	30	193	5: (2,5 - 5]	4%	4%	8%	1%	17%
6: (5 - 10]	45	73	45	30	193	6: (5 - 10]	4%	4%	9%	2%	19%
<b>Total SMEs</b>	<b>270</b>	<b>440</b>	<b>270</b>	<b>180</b>	<b>1160</b>	<b>Total SMEs</b>	<b>17%</b>	<b>25%</b>	<b>51%</b>	<b>7%</b>	<b>100%</b>

\* Depending on data availability, there is possible deviation of 10%

\* Weighted average of the last decade

Source: EL.STAT. Company Register (2007), ICAP Data, Eurostat, NBG Estimates

- ❑ Our survey examines a sample of enterprises with a turnover of below €10 million, which, for the purposes of the analysis, we define as small and medium-size enterprises (SMEs).
- ❑ Enterprises were selected using a stratified sampling method, in line with the standards of similar surveys carried out by international organizations. Specifically, a total of 1.160 enterprises were selected in such a way as to enable even distribution of the sample on the basis of two key factors: scale of turnover (6 scales) and sector of activity (Manufacturing, Trade, Services, Construction).
- ❑ In order to draw conclusions that are representative of the SME segment, answers were weighted according to the participation of each sub-set in the total turnover of the segment. Thus, findings were arranged (i) by size, (ii) by sector, and (iii) for the entire SME business sector. In line with the methodology, the segments are weighted on the basis of their shares in total turnover and not the number of enterprises.

- ❑ In order to construct a confidence index for SMEs, we included a number of basic questions regarding the level of business activity in the previous and in the coming half year. The model for the questions is based on the harmonized questionnaire recommended by the OECD and the European Commission, thereby enhancing the comparability of the index.
- ❑ The Index questions offer 3 alternative answers: increase (+), no change (=), decrease (-), or above normal (+), normal (=), below normal (-). To begin with, we convert the number of answers per category (+, =, -) to percentages and then we calculate the net result by subtracting the (-) from the (+) percentage. Last, the confidence index for each sector is the average of the net results for the following questions:
  - ✓ For **manufacturing**: The level of orders, inventories, and future production trend.
  - ✓ For **services**: The business situation of the firm in the previous half year, past and future demand trend.
  - ✓ For **trade**: Level of inventories, past and future demand.
  - ✓ For **construction**: Level of backlog, and future employment trend.
- ❑ For the SME sector, the business confidence index has been estimated as a weighted average of its subsectors (the weights being the shares of the sectors' turnover in the economy).
- ❑ By carrying out the survey on a regular 6-month basis we should be able to form a picture of SMEs' course over time, as reflected in the index. To draw reliable conclusions, comparison will be made between the current index level and its long-term average (so as to correct possible over-optimism or over-pessimism bias).
- ❑ The evolution of the confidence index (and any other reviews over the course of time) does not take into account the closing of companies, just the developments regarding businesses operating during the period this survey is carried out.

- ❑ Company: TNS
- ❑ Methodology: Quantitative research in the form of Computer Aided Telephone Interviewing - C.A.T.I., using a 20-minute structured questionnaire.
- ❑ Sample: A total of 1160 interviews were conducted (960 within the context of the current assessment plus 200 booster interviews with SME hotels):
  - ✓ 580 enterprises with annual turnover up to EUR 1 million (freelancers, sole proprietorships, unlimited partnerships, limited partnerships, limited liability companies, SAs) - 100 of which are hotels
  - ✓ 580 enterprises with annual turnover between EUR 1 million and 10 million (unlimited partnerships, limited partnerships, SAs, limited liability companies) - 100 of which are hotels
- ❑ Geographical coverage:
  - ✓ Athens, Thessaloniki, Heraklion, Ioannina, Kavala, Larissa, Patras
- ❑ Sampling: multi-stage, stratified, non-proportional sampling for sector, turnover size & geographical area in each of the two sets of samples. Quotas relating to turnover and for the booster sample.
- ❑ Statistical error: in each of the two sets of samples of 480 enterprises the maximum statistical error is estimated at +/- 4.15% at a 95% confidence level.
- ❑ Period of survey: 07/03/2017-28/4/2017
- ❑ Survey framework: The survey was carried out in line with ESOMAR and SEDEA (Association of Greek Market and Opinion Research Companies) codes of conduct and the quality control requirements set by PESS (Quality Control in Data Collection). A total of 49 researchers and 2 reviewers with experience and know-how in business surveys participated in the field research.



NATIONAL BANK OF GREECE  
Economic Analysis Department

## Survey of Greek SMEs

Accommodation sector

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