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GREEK HOTELS: HIGH NPES IN TIMES OF A THRIVING TOURISM

In this paper we try to show the big problem of non-performing exposures faced by the Greek Banking System and more specifically the particularities of the Greek Hotels, despite the favorable conditions for tourism. Our objective is to draw some conclusions regarding the reasons of the problem.

JEL Classification Codes: L83, Z32.

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Introduction

For more than 7 years now, the Greek economy is struggling to find a way out of the financial crisis. Under normal conditions the banking system would be expected to play a very important role. Unfortunately, the low liquidity and the high percentage of non-performing loans have a negative impact on the lending criteria of the Greek Banks and consequently on the supply and demand of bank loans.

Some efforts to explain the problem at high figures of non-performing loans, by blaming the banks' wrong lending practices in the period before the crisis, have been rejected by the research made in this field. (Monokrousos et al). It is rather attributed to the long-lasting recession which is not due to the lending practices, but it is connected to the wrong government practices regarding the public debt crisis.

Since 2014 the Bank of Greece adopted the term „non-performing exposures” (NPEs), which is broader than non-performing loans (NPLs). NPEs include all debt instruments as well as off-balance sheet exposures. They include exposures with a de-

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lay longer than 90 days and besides they include exposures with uncertain collection although they are either performing or are less than 90 days past due. So we can see that qualitative criteria have been added.

The efficient management of non-performing exposures is expected to contribute to the recovery of bank financing and the overall restructuring of entrepreneurship in Greece. High NPEs lead to reduced financial resources and increased rates of interest. By the end of 2016, the non-performing business exposures were amounting 44.4% of the total business exposures, namely among the highest in the European Union, where the average figure was 5.5% in June 2016. The comparison is really impressive with the NPEs in Greece representing 10% of the total NPEs of EU, whereas the total assets of the Greek Banking Sector is only 1.2% of total assets of Banks in the EU.

More specifically the respective percentage for the non-performing exposures of SMEs was 58.9% and for the very small businesses was 68.3%. The problem is relatively smaller for the bigger companies, as the respective figure is 26.7% (Bank of Greece).

Despite the fact that the Greek Banks have already made sufficient provisions in their balance sheets and they have „satisfactory” collateral (consisting mainly from 81% real estate), the problem remains with the aforementioned consequences. The bad condition of the real estate market with a 41.9% fall in the prices of apartments from 2008 until the first quarter of 2017, confirm this argument (Mitrakos 2017). Of course, we have to point out that real estate connected with tourism, proved to be the most resilient in the Greek economy. Especially, in the areas of Attica, Mykonos, Corfu etc, where a considerable number of investments (mainly from abroad) started and it was connected mainly with the construction of new high quality hotels.

It is impressive that the percentage of non-performing exposures for the Tourism Sector reaches 54%, compared with 45% which is the average of NPEs for all the business loans in 2016.

In the rest of this paper we will try to investigate the reasons leading to this big contradiction. Actually why in a period of „success?” of the Greek Tourism, high percentages of NPEs are recorded, although Tourism is considered as one of the main pillars of growth for the Greek economy. We will do that by referring to the characteristics of the Greek Tourism, which show the pros and cons of the specific industry. The various existing disadvantages lead to the explanation of the contradiction.

1. Characteristics of the Greek Tourism

The role of tourism in the Greek economy is crucial. It contributes to the GDP of the country with 18.6% and to the total employment with 23.4% (2016). We can see the development of the respective figures in the following table 1. The market share of the Greek Tourism from 2001 to 2015 ranges at global level from 1.5% to 2% and at

European level from 2.8% to 3.8% (table 2). In the next table 3, we can see the Hotel infrastructure of the country with the respective number of hotels and numbers of beds.

Table 1. Participation of Tourism in the GDP and the Employment of the country

Year	% of GDP	% of Employment
2000	16.6	19.2
2001	17.1	19.4
2002	16.5	19
2003	15.9	18.1
2004	16.3	18.2
2005	17.6	19.5
2006	17.8	19.8
2007	17.5	19.4
2008	16.8	18.7
2009	15.9	17.7
2010	16	17.8
2011	16.4	18.3
2012	16.4	18.3
2013	16.3	18.2
2014	17.3	17.3
2015	18.5	23.1
2016	18.6	23.4

Source: Bank of Greece.

Table 2. Market Share of the Greek Tourism

Year	World	Europe
2001	1.9	3.4
2002	1.8	3.2
2003	1.8	3.1
2004	1.5	2.8
2005	1.8	3.3
2006	1.8	3.3
2007	1.8	3.3
2008	1.7	3.3
2009	1.7	3.2
2010	1.6	3.1
2011	1.5	2.9
2012	1.5	2.9
2013	1.6	2.9
2014	1.8	3.8
2015	2	3.1

Source: SETE.

Table 3. Hotel Infrastructure of the country

Year	Number of Hotels	Number of Beds
2000	8 073	593 999
2001	8 285	608 104
2002	8 527	626 914
2003	8 689	644 898
2004	8 899	668 271
2005	9 036	682 050
2006	9 111	693 252
2007	9 207	700 933
2008	9 385	715 857
2009	9 554	726 546
2010	9 732	763 407
2011	9 670	771 271
2012	9 670	771 271
2013	9 677	773 445
2014	9 851	792 304
2015	9 757	784 315
2016	9 730	788 553

Source: Hotel Chamber of Greece.

The Greek Tourism is characterized by a high concentration in the supply of hotel beds, with 70% of them being offered in 4 out of the 13 regions of the country. (More specifically the regions of Southern Aegean, Crete, Central Macedonia, and Ionian Islands offer 70% number of beds). (SETE 2016)

Five regions of the country benefit 87.5% of the total receipts from tourism. More specifically the five regions are:

- Southern Aegean;
- Crete;
- Attica;
- Central Macedonia;
- Ionian Islands;
- in order of magnitude of the respective receipts (Bank of Greece).

The Greek Tourism is characterized by high seasonality. The highest number of foreign tourism arrivals takes place in July, August and September, with the highest figure (56%) recorded in 2016 and the lowest (47.7%) recorded in 2007 (table 4).

In the next table 5, we can see that the spectacular increase in the arrivals of foreign tourists is not accompanied by a respective spectacular increase in receipts. But it is the gradually diminishing expenditure per capita that creates a lot of worries for the future of tourism and the Greek hotels.

Table 4. Arrivals of foreign tourists in July, August and September as % of total arrivals

Year	Percentage
2001	51.3
2002	50.3
2003	50.6
2004	49.1
2005	49.5
2006	49
2007	47.7
2008	50
2009	52
2010	55
2011	56
2012	56
2013	56
2014	56
2015	55
2016	56

Source: SETE.

Table 5. Foreign tourists' arrivals, receipts and expenditure per capita

Year	Arrivals (in millions)	Receipts (in bn euros)	Expenditure per capita in euros
2001	13	10.6	810
2002	12.6	10.3	819
2003	12.5	9.5	762
2004	11.7	10.4	882
2005	14.4	10.7	746
2006	15.2	11.4	746
2007	16.2	11.3	700
2008	15.9	11.6	730
2009	14.9	10.4	697
2010	15	9.6	640
2011	16.9	10.4	616
2012	16.9	10.4	616
2013	17.9	11.7	653
2014	22	13	590
2015	23.6	13.6	580
2016	24.7	12.7	514

Source: Bank of Greece.

2. Factors leading to high NPEs of the Greek Hotels

The difficulties faced by the hotel industry in Greece can be confirmed by a recent report of PWC. Among other observations, the report refers to the fact that the Greek hotel industry relies mainly on small hotels. The 2 stars hotels constitute about 45% of the total figure. There are only 367 hotels with more 300 beds, representing 4% of the total number and 25% of the total bed capacity. The hotel industry is split and the average size of a hotel is 247 beds. Finally, the PWC report suggests three strategies for investments in hospitality:

1. Adding capacity in main destination by using unutilized building permits.
2. Upgrading hotels to the next class.
3. Developing lesser destinations by the acquisition of many hotels at one of them. This is considered the most promising strategy.

The objective of this paper is to investigate and find out the reasons leading to the high NPEs for the Greek Hotels.

Most of the reasons are common with the rest sectors of the Greek economy. We noticed in the beginning of the paper that the non-performing exposures are higher for the smaller companies. This is also valid for the smaller hotels which constitute the majority of the Greek hotels. If we take into account the above mentioned characteristics of the Greek Tourism, the report of PWC and the research carried out by various authors, we can reach certain conclusions regarding the recorded high NPEs of the Greek Hotels. More specifically the high NPEs of the Greek hotels are connected with:

- The big number of small hotels.
- The high seasonality of the demand of hotel services.
- The decreasing receipts from tourism, despite the increasing number of tourists arrivals.
- The decreasing tourist expenditure per capita.
- The spread of all inclusive tourism.
- The strong presence of rooms to let (very often being part of the big underground economy and therefore competing with the hotels with unequal terms).
- The spread of Airbnb, gaining market share against the Greek hotels.
- The high taxation on hotels' earnings (51.7% for taxes and social security contributions, compared with 40.1% average rate for the developed countries of OECD) (Doing Business 2018).
- The weakness of Greek Hotels to attract tourists with higher income per capita connected with the relatively low competitiveness of the Greek Tourism (which is not necessarily attributed to the Greek Hotels, but it can be associated with taxi drivers, travel agents, museum trade unions etc).

3. Concluding remarks

All the above-mentioned factors constitute a very complicated business environment for the Greek Hotels and, in our opinion, create serious difficulties in the Hotels' ability to pay out their debts to the Banks. The solution of the problem depends on the governments' determination to tackle the problems by establishing a modern, transparent, fair and efficient institutional framework.

On the other hand we should not underestimate the hotel owners' lack of willingness to proceed to reforms connected with the cost, the price and the quality of their services.

We believe that under the current conditions the problems will remain, even if the very optimistic forecasts for 30 million foreign tourists arrival in the next years, comes true. The need for upgrading the quality first and the quantity second in the hotel infrastructure of the country is imperative.

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