



# Cyprus Tourism Market Report

A summary of the significant factors and major drivers of tourism in Cyprus

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# Overview of the tourism market in Cyprus

The tourism market is one of the largest economic sectors in Cyprus and has experienced substantial growth over the last five years, with tourists reaching 3,2 million in 2016. Cyprus' tourism industry has been honoured with numerous prestigious awards, spanning the sustainable Destinations Global Top 100, an initiative of TravelMole.com, VISION on Sustainable Tourism, Totem Tourism and Green Destination titles bestowed to Limassol and Paphos in December 2014.

In addition, the Cyprus Tourism Organisation is proud to be the winner of the Silver Award as the 'Best Destination for Responsible Tourism' which was announced at the prestigious World Responsible Tourism Awards ceremony. This event was held on the 4th of November 2015 at the World Travel Market, the leading global event for the travel industry.

Cyprus' famous beaches have been crowned 'Cleanest Bathing Waters in Europe,' with a consistent 100% score year after year and awarded with 57 Blue Flags achieving three records:

- the most Blue Flags per capita in the world
- the most dense concentration of Blue Flag beaches
- the most Blue Flag beaches per coastline.

## Key tourist areas in Cyprus

Cyprus has five main tourist districts, namely, Famagusta, Paphos, Limassol, Larnaca and Nicosia. Each district offers a wide range of tourist products, attracting different types of tourists.

Nicosia, is the capital of Cyprus and the main commercial and business centre, with a world famous archaeological museum, the Venetian walls, and Laiki Yitonia which is a labyrinth of traditional streets.

The Famagusta region consists of Ayia Napa, the south east coast of Cyprus and Protaras, the coastal area of Paralimni. As a result, Famagusta has a wider range of beaches than other cities. Ayia Napa in particular is a reputable party town and prime site for nightlife.

Paphos is a popular coastal town in the southwest of Cyprus. Visitors can enjoy spectacular scenery and some of Cyprus' finest beaches. Paphos offers ancient historical sites, some classified as world heritage sites by Unesco and an attractive harbour. It is expected that Paphos will be subject to intensified cultural activity, as it has been selected by the EU to be a European Capital of Culture for 2017.

Limassol is the second largest city in Cyprus and is situated on the

southern coast of the island. It has developed significantly in recent years, emerging as a business hub as well as a party town with reputable beach bars, Carnival and Wine Festivals. Limassol has the largest port in Cyprus while the existence of marinas assists them to attract high wealth tourists.

Larnaca is the third largest city in Cyprus, and is known for its palm-tree seafront. It is home to the country's primary airport, a seaport and a marina.

## Seasonality

Promotion of tourism in Cyprus has focused primarily on the concept of 'sun and sea'. This creates a seasonality to tourism which means there is an uneven spread of tourism inflow over the year. The peak season for tourist arrivals in Cyprus is the six month period from May to October. Cyprus has been known as a summer destination and attracting tourists during the winter months remains a challenge.

The government, in an attempt to reduce the tourism seasonality effect, aims to extend the tourism season by two months to cover the shoulder months of December and March. Given that golf resorts have different seasonality patterns since they are preferred in winter, the government announced an incentive

An aerial photograph of a beach with turquoise water. In the foreground, a row of colorful beach umbrellas (blue, red, yellow, green) is set up on the sand. The water transitions from a light turquoise near the shore to a deeper blue further out. The beach is wide and sandy, with some people visible in the distance.

scheme aiming at accelerating the construction of golf courses and allowed the development/conversion of 'Condo Hotels'.

In addition, the luxurious integrated casino resort that will be completed in the near future following the adoption of a law governing the operation of a casino by the House of Representatives in July 2015, will certainly attract quality tourism, as well as reduce the seasonality effect. The legislation provides for the development of an integrated casino resort of international standards that will include a hotel or hotels exceeding the requirements for a five-star establishment with at least 500 luxury rooms, 100 gaming tables and 1.000 gaming machines. Moreover, the legal framework provides for the operation of four "satellite" units in other locations. The tender process for the casino resort has been finalized and the government has granted the casino license to the multinational consortium consisting of the companies Melco-Hard Rock and Cyprus Phassouri (Zakaki) Limited. Finally, Cyprus is moving ahead on multiple fronts regarding "Open Skies" policy, an international policy that aims to liberalize the rules for aviation markets in an effort to extend both the number of originating airports, as well as aircraft operators. Cyprus has recently

completed several new agreements with countries such as Bahrain and Oman. Furthermore, negotiations with various countries from Asia, Africa and South America have already begun.

#### **Accommodation**

Accommodation in Cyprus consists of the following categories, namely hotels, hotel apartments, tourist villages, traditional buildings/houses (agrotourism) and other types which include camping sites, guesthouses, organised apartments, and tourist villas.

There were a total of 790 accommodation units in Cyprus as at 31st December 2016, with an overall bed capacity of 84.238.

# Cyprus' Economy

As of 31st of March 2016, Cyprus has successfully completed its Economic Adjustment Programme, three years after its commencement.

Cyprus benefited from the Economic Adjustment Programme, during which it emerged from recession, stabilised its financial sector, and consolidated its public finances. Cyprus' economy emerged from recession in 2015, with real GDP growth reaching 2,9% year-on-year in the second quarter of 2016. The recovery has so far been primarily driven by domestic demand, amid declining consumer prices and an improving labour market. The tourism sector, benefitting from measures to extend the season, improved air connectivity, and geopolitical tensions in the competing markets has provided significant support to exports. Net exports nevertheless contributed negatively to growth due to increasing imports.

The Cypriot banking system in particular has undergone a deep transformation. The ground covered since March 2013 has been significant and the reform measures, which have been executed or are underway, are essential to restoring the Cypriot financial system to viability.

The restoration of the banking system continues and debt restructuring is picking up. However, despite the fact that demand for loans is slowly increasing, the percentage of non-performing facilities ("NPFs") remains high and the pace of lending is subdued.

## Economic update

### Fiscal reforms

Following the progress made over the past year, the European Commission significantly revised its spring forecasts in relation to the Cyprus economy, which are set out in Forecast 1 below and described in their most recent Autumn report, summarised below.

#### Forecast 1

European Economic Forecast Autumn 2016				
	2015	2016	2017	2018
<b>GDP growth (% yoy)</b>	1,7	2,8	2,5	2,3
<b>Inflation (% yoy)</b>	-1,5	1,1	0,7	1,3
<b>Unemployment (%)</b>	15,0	12,5	11,1	10,0
<b>Public budget balance (% of GDP)</b>	-1,1	0,3	-0,4	0
<b>Gross public debt (% of GDP)</b>	107,5	107,1	103,7	100,6
<b>Current account balance (% of GDP)</b>	-3,0	2,8	-3,3	3,4

Source: European Commission (9 November 2016)

Real GDP growth is expected to reach 2,5% in 2017 and then to moderate gradually to 2.3% in 2018. An important factor taken into account by the European Commission was the improved outlook for investment based on the stabilizing housing market in Cyprus. A second significant factor was the increase in private consumption. The European Commission noted the growth in the tourism sector and expects it to continue, albeit at a slower pace, contributing to job creation while exerting upward pressure on wages and unit labour costs.

HICP (Harmonised Index of Consumer Prices) inflation is expected to increase and return to positive territory in 2017, although it is expected to remain moderate as profit margins are forecasted to narrow further, thus, limiting the pass-through of higher unit labour costs to consumer prices. As a result, less support for real GDP growth will be provided.

Meanwhile, the "more pronounced" domestic private demand growth is expected to slow down owing to the ongoing deleveraging and continued loan restructuring efforts by banks, combined with weak lending activities. Consequently, investments continue having to be financed mainly from retained profits and savings.

On the upside, the European Commission stated that consumption could be enhanced more and FDI could perform better than anticipated as a result of the lagged effects from declining energy prices and stronger labour incomes. Moreover, the Commission stated it that could not rule out the possibility that the strong performance in the tourism sector will continue without losing its momentum.

On the other hand, the report raises the issue of the effects and risks stemming from the EU referendum in the United Kingdom which might turn out to have a negative impact on Cyprus' economic outlook. Additionally, the slow reduction in non-performing loans could lead to a more prolonged period of tight credit conditions, which could dampen the recovery.

With regards to the primary balance of the general government, the European Commission expects it to improve further, reaching a surplus of 2,3% of GDP. However, there are also additional factors beyond the control of the government weighing on the revenue, notably new location rules regarding VAT on e-commerce services and a decrease in dividend income from the Central Bank of Cyprus (CBC) due to a decrease in the emergency liquidity assistance. Furthermore, the government's primary balance will be negatively affected by the significant reduction in property tax and the partial switch to professional soldiers that took place in November 2016. In parallel with the primary balance, the headline balance also improved recording a deficit of 0,3% of GDP (from -1,1% of GDP in 2015).

In 2017, the general government primary surplus is forecasted to decrease marginally to 2,0% of GDP. The Commission also noted the abolition without compensatory measures of the immovable property tax paid to the central government as of 1/1/2017. In addition, the European Commission pointed to the special payroll contribution levied in response to the crisis which expired at the end of 2016. In 2018, the small improvement in the general government primary surplus is largely based on the improving economic outlook. Despite the stable headline balance, the structural balance is expected to worsen over the forecast horizon. Lastly, public debt is expected to decline to 100,6% of GDP in 2018. The debt path is slightly better than envisaged in the spring, mainly due to higher nominal GDP.

### **Non-performing loans**

Significant progress has been made in the financial sector as a result of the recapitalisation and restructuring of credit institutions. However, the key challenge involves dealing with the high level of NPLs, in order to restore the country's creditworthiness, economic growth and the creation of new jobs.

According to the data published by the Central Bank of Cyprus, the total amount of non-performing loans held by all Cypriot banks decreased by €430m in September 2016, while there was a decrease of €600m in the third quarter of 2016. In October, NPLs further decreased by €37,6m to €24,08 billion, constituting 48,5% of total loans (€49,63 billion). Banks are concentrating their efforts to speed up the restructuring of NPLs and according to CBC data, agreed restructurings have followed an upward trend. In order to further facilitate the reduction of NPLs and offer to credit institutions the necessary tools in order to effectively address this challenge, the legislature adopted in November 2015, a law regulating the sale of credit facilities. In particular, this legislation sets out the criteria for eligible purchasers of bank loans and regulates the activities of such purchasers. Moreover, further legislative reform aiming to facilitate loan restructurings dictates that assets acquired by a financial institution in



the context of such restructuring will be considered tax neutral transactions and no fees will be attached. In addition, the first foreclosures took place within the first half of 2016 which primarily focused on commercial buildings and land plots rather than primary residences. Cyprus' bank deposits decreased in December this year as shown by the data released by the country's Central Bank. Total deposits in December recorded a net decrease of €74,9 million from November 2016 compared to a net increase of €358 million in November 2016. The annual growth rate stood at 6,2% compared with 6,8% in November 2016. The outstanding amount of deposits reached €49,0 billion in November 2016.

Deposits increased by €5,27 billion from March 2016 when they reached the lowest level of the past nine years. In March 2016, deposits fell to €45,73 billion, the lowest level since April 2007, when they stood at €44,52 billion. As Central Bank's data show, Cypriot residents' deposits recorded a net increase in December 2016 by €168,2 million to €36,529 billion, whereas deposits of EU residents increased by €61,1 million to €3,259 billion. Deposits of Third Countries' residents decreased by €218,0 million to €9,221 billion in December 2016. On the other hand total loans in December 2016 exhibited a net decrease of €98,0 million, compared with a net decrease of €29,1 million in November 2016. The annual change rate stood at -11,0%, compared with -10,4% in November 2016. The outstanding amount of loans reached €55,2 billion in December, while in November the outstanding amount of loans was €53,9 billion, the lowest level since October 2008, when they stood at € 53,92 billion.

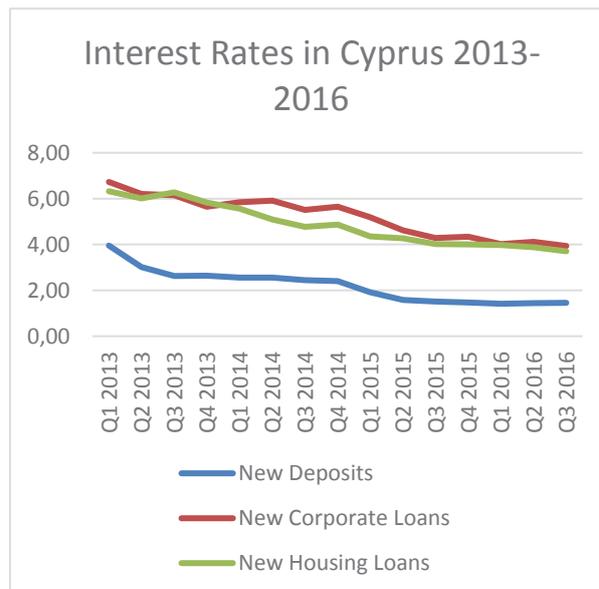
Cyprus residents' loans have decreased by approximately €9,09 billion to €45,2 billion, from their highest level of € 54,29 billion in March 2013. Domestic household loans fell to € 20,760 billion, a decrease of €3,09 billion, from their highest historical level of € 23,85 billion in December 2012.

## Economic indicators

### Interest rates

The effect of the decision of the Central Bank of Cyprus in February 2015 to decrease the maximum deposit rate by 1% as reflected in the declining trend of interest rates in 2015, which has continued in 2016, is displayed in Graph 1 below.

Graph 1



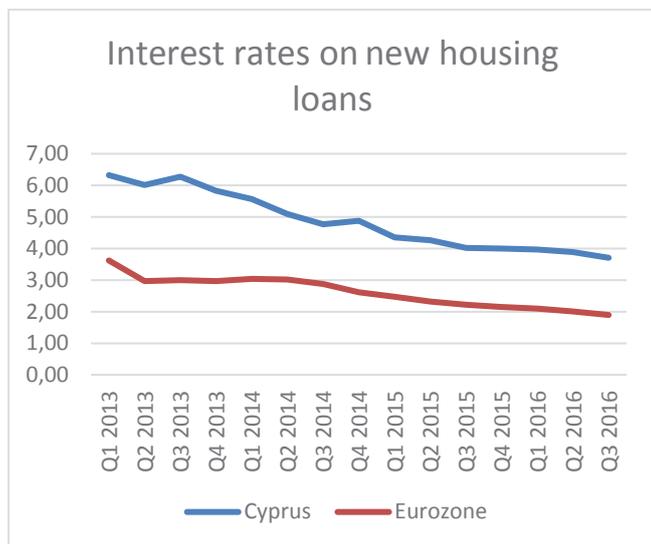
Source: European Commission (9 November 2016)

The average interest rates for new housing loans (consumer credit, lending for house purchase and other household lending) have continued their downward trend, falling to 3,71% in the 3rd Quarter of 2016 compared to 4,02% in the 3rd Quarter of 2015. The average interest rates on new corporate loans (excluding bank overdrafts) have also decreased to 3,94% in the 3rd Quarter of 2016



compared to 4,29% in the same period of 2015. With regards to the average new depository interest rates (with agreed maturity up to 2 years or redeemable at notice), they have decreased to 1,45% in the 3rd Quarter of 2016 compared to 1,51% in the same period of 2015.

Graph 2



Source: CBC & ECB

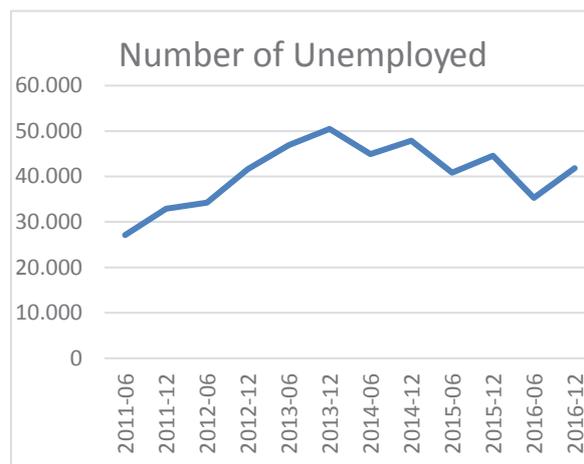
Graph 2 highlights the divergence between interest rates for new housing loans in Cyprus and the respective interest rates in the Eurozone, with interest rates in Cyprus remaining higher in spite of recent declines. For instance during the 3rd Quarter of 2016, the average interest rate for new housing loans in Cyprus was 3,71% compared to 1,90% in the Eurozone. The same divergence applies for interest rates for new corporate loans as well as new deposits.

## Unemployment

It appears that unemployment in Cyprus reached its peak in December 2013, with 50.467 registered unemployed persons.

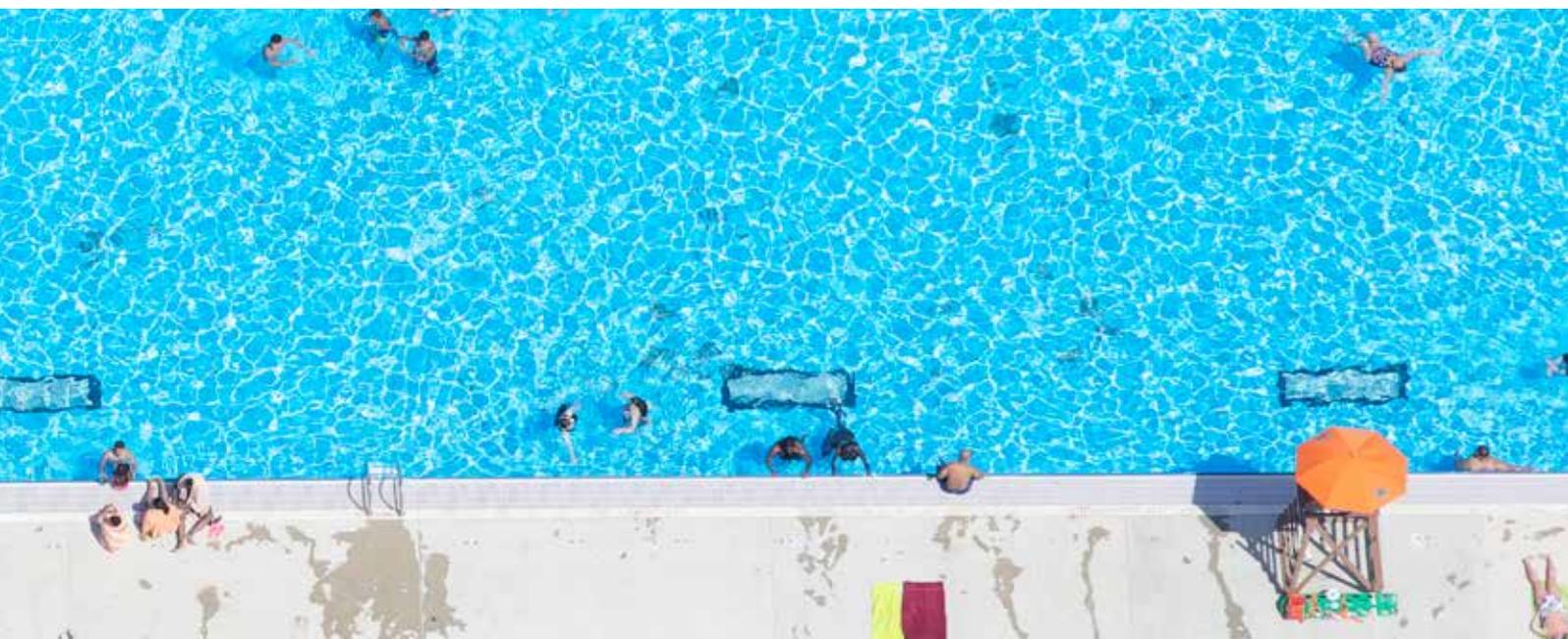
Although a declining trend has been recorded in the last three years, it must be noted that there is a long way to go before reaching the low levels of December 2009, when registered unemployed amounted to 21.530.

Graph 3



Source: CYSTAT November 2016

According to data from the Statistical Service of the Republic of Cyprus (CYSTAT), the number of registered unemployed in Cyprus increased to 41.852 persons in December compared to 40.646 in the previous month. In comparison with December 2105, a decrease of 2.698 persons or 6,1% was recorded which was mainly observed in the sectors of construction, manufacturing, transportation, trade, public administration and to newcomers in the labour market.



# Tourism Sector Analysis

## Industry overview

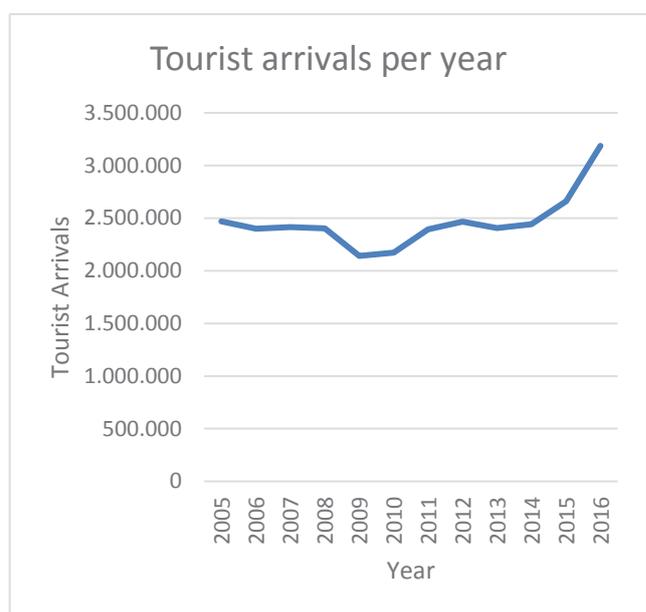
Cyprus' economy is heavily reliant on the services sector and more specifically on the tourism industry. According to the report issued by the "World Travel & Tourism Council" ('WTTC') on the economic impact of travel and tourism in 2016, the direct contribution of travel and tourism to GDP in 2015 was EUR 1,1 bn (6,4% of total GDP). The direct contribution of travel and tourism to GDP is defined as "the internal spending on travel and tourism, by netting out the purchases made by the different sectors (total spending within a particular country on travel and tourism by residents and non-residents for business and leisure purposes)".

Meanwhile, the total contribution of travel and tourism to GDP was EUR 3,4 bn (19,3% of GDP) in 2015 and is expected to grow by 4,4% to EUR 3,5 bn (19,9% of GDP) in 2016, as per the same WTTC report. The total contribution of travel and tourism includes its "wider impacts" (i.e. the indirect and induced impacts) on the economy. In addition, it is forecasted to rise by 3,6% p.a. to EUR 5 bn by 2026 (22,9% of GDP). This rising trend is in line with the growing demand in international tourism.

## Tourist arrivals by country of origin

The annual number of tourist arrivals has experienced substantial growth over the last three years, despite a minor decline in 2013 (Graph 4). 2016 is considered as a record year, as it is the most successful year ever recorded, with tourist arrivals in Cyprus amounting to 3.186.531. In 2016 there has been an increase of 19,8% compared to 2015 when tourist arrivals amounted to 2.659.405.

Graph 4



Source: CYSTAT

It is worth noting that the increase in tourist arrivals in 2016 compared to 2015 was seen in all months of the year. July recorded the highest arrivals in this specific period (482.132) with a 14% increase from July 2015. Interestingly, the biggest percentage change in arrivals in this period between 2016 and 2015 was evident in March (29%).



Most of the tourist arrivals in 2016 originated from Europe (approx. 90%). In particular, in 2016 almost 60% of tourists (1.908.237) were from EU member states.

Table 1

Country	2016	2015	(% Change 2016/15)
<b>UK</b>	1.157.978	1.041.208	+11,2%
<b>Russia</b>	781.634	524.853	+48,9%
<b>Sweden</b>	115.019	108.605	+5,9%
<b>Greece</b>	160.254	139.539	+14,8%
<b>Germany</b>	124.030	112.219	+10,5%
<b>Israel</b>	148.739	98.597	+ 50,9%
<b>Total (All Countries)</b>	<b>3.186.531</b>	<b>2.659.405</b>	<b>+19,8%</b>

Source: CYSTAT

Around 36,3% of tourist arrivals were from the UK, reaching 1.157.978 persons, as shown in Table 1. For comparison purposes, it should be highlighted that up until 2009, over 50% of visitors in Cyprus arrived from the UK, indicating the fact that their market share of tourists has decreased significantly in recent years. However, based on Table 1 there has been a significant increase in tourist arrivals from the UK in 2016 (+11,2%) compared to 2015.

Arrivals from Russia have increased by 48,9% during 2016 reaching 781.634 compared to 524.853 in 2015. Russia remains the second largest tourism market for Cyprus, representing 24,5% of the market.

Germany remains the fourth largest tourist market, reaching 124.030 tourists in 2016. This is a healthy increase of 10,5% from 2015, as compared to the significant increase of 28,58% witnessed between 2015 and 2014.

Sweden, the fifth largest source market of tourists to Cyprus, reached 115.019 tourist arrivals. This confirms a small 5,9% increase from 2015.

Tourist arrivals from Greece recorded a more notable increase of 14,8% in 2016 compared to the previous year. This result is pleasing, taking into account the declining trend over the past years, as well as the fact that the country has not yet recovered from the financial crisis.

Arrivals from Asia have also been increasing and it is evident that Cyprus is an attractive tourism destination for the Asian market. Such arrivals reached 256.052 persons in 2016, representing an increase of 32%, compared to 193.466 persons during 2015. This figure largely comes

down to higher tourist arrivals from Israel and Lebanon (Western Asia). For instance, arrivals from Israel reached 148.739 persons in 2016, an increase of approximately 50,9% compared to 2015 (98.597), whereas arrivals from Lebanon reached 50.361 persons, an increase of approximately 36,2% (36.981).

### Revenue from tourism

According to CySTAT, tourism revenue has increased steadily year-on-year since 2013. In 2015, revenue from tourism reached €2,1 bn, compared to €2,0 bn in 2014, recording an increase of 1,43%. For the period January – November 2016, revenue from tourism is estimated at €2,3 bn compared to €2,1 bn in the corresponding months of 2015, representing an increase of 12,3% as exhibited in Graph 5.

Graph 5



Source: CYSTAT

The increase in revenue in equivalent periods remain higher in 2016 compared to 2015, and this may be attributed to an increase in arrivals by 19,8% (for the period January-December 2016). It is interesting to note, however, that there is a decline in both expenditure per person and per day expenditure data for the most recent data month of November 2016. Furthermore, the average length of stay has been reduced. More specifically, average expenditure per person for November was €674 whilst this amounted to €757 during the same month last year (11,0% decrease).

When examining average tourist expenditure per day, a similar trend is evidenced. The per day average tourist spending was €71,0 for the month of November, compared to €73,47 for the same month last year (3,4% decrease).

Likewise, it is necessary to point out a similar trend in the average length of stay for the month of November. This figure stands at 9,5 days compared to 10,3 days for the same month in 2015 (7,8% decrease).

### Accommodation and occupancy rates

Accommodation offered in Cyprus mainly consists of hotels, hotel apartments, tourist villages and traditional buildings. There were a total of 790 accommodation units in Cyprus as at 31st December 2016 (Table 2), with an overall bed capacity of 84.238.

Table 2

Accommodation units	Total
Hotels	223
Hotel Apartments	164
Tourist Villages	19
Traditional Buildings	169
Other Categories	215
<b>Total</b>	<b>790</b>

Source: CTO

The greatest number of accommodation units are found in Paphos (265), which is also the city with the greatest number of tourist villages. Famagusta, on the other hand, has the greatest number of hotels (73) and hotel apartments (95). Furthermore, Famagusta has the highest bed capacity of all tourist districts in Cyprus.

It must be noted that as a result of the incentives offered by the Cypriot government regarding urban planning permissions, there are currently 30 applications for hotel expansion or renovation in the Famagusta area submitted before the Cyprus Tourism Organisation. At the same time there are 6 pending building permit applications for new hotels in Paphos, Limassol and Famagusta area. It is estimated that over half a billion euro has been invested for the renovation or upgrading of hotels in Cyprus over the last years.

Net bed occupancy rates are calculated as the number of occupied beds in a period over the accommodation capacity of licensed establishments (number of available beds per night multiplied by the number of nights the establishments operate in a period). This is an appropriate figure to use for assessing the activity of a market due to the fact that it takes into consideration the seasonality effect of the tourism market in Cyprus.

The highest net occupancy rate in the period January to October 2016 was exhibited in tourist villages (89,1%). Following closely are hotel apartments (74,60%), (see Table 3).

Table 3

Net bed occupancy per accommodation category	Jan-Oct 2016	% change from Jan-Oct 2015
Hotels	71,3%	35,0%
Hotel Apartments	74,6%	50,9%
Tourist Villages	89,1%	93,3%
Traditional Buildings	29,5%	20,2%

Source: CTO

Famagusta has the highest net occupancy rates across all categories excluding traditional buildings. Specifically, the occupancy rate in Famagusta across all licensed establishments during the period of January to October 2016 was 91,3%, while in Nicosia, Limassol, Larnaca and Paphos they were 32,4%, 55,3%, 53,5% and 65,4% respectively. The net occupancy rate across all areas including hill resorts, and for all licensed establishments for the same period was 69,8%, exhibiting an increase of 43,4% for the same period in 2015.

### Guest nights and Seasonality

Most accommodation establishments in Cyprus are not open all year round. This usually depends on demand and on the location of the establishment i.e. seaside / city / hill resorts.

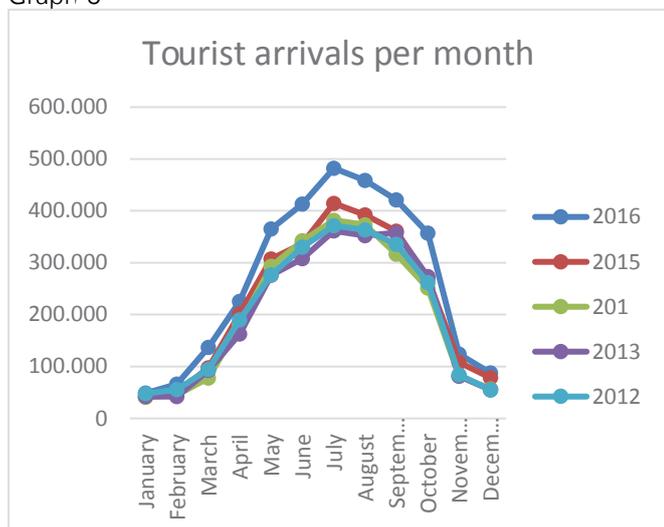
The total guest nights of residents, as well as non-resident tourists in licensed establishments in Cyprus for the period from January to October 2016 was 13.857.416. Guest nights in hotels exhibited an increase of 7,3% compared to the same period in 2015, whilst traditional buildings posted a small increase of 15,6%. The largest change is found in tourist villages, posting a 25,6% increase, whilst Hotel apartments increased by 8,9%. The increased guest nights in hotels & tourist villages was evident only with regards to Cyprus non-resident tourists, emphasizing the potential for development/ increased demand in commercial tourism.

Guest nights for non-resident tourists recorded an increase in all categories of licensed establishments, the largest increase being in Tourist villages (26,4%). On the other hand, Cyprus residents' guest nights have increased only with regards to Hotel Apartments (0,9%) and other collective establishments which include tourist villas and camping (9,9%).

Seasonality of the tourism industry is evident from the varying number of tourist arrivals from month to month (Graph 6). Tourist arrivals during the summer months of May to September are five or even six times more than in the rest of the year. This forces hotels in coastal areas

to suspend their operations during winter and although hotels staying open during winter have increased, this is still considered as one of the most significant challenges faced by the tourism industry.

Graph 6



Source: CYSTAT

According to recent studies, Cyprus is perceived as a summer holiday destination because of the attractive warm climate and enticing coastal beaches. The Cyprus Tourism Organisation (CTO) is dedicated to implementing its strategic plan to increase tourist arrivals during the winter months over the course of the next three years. It is evident that this plan has started to show success given the significant increase of tourist arrivals in winter months for 2015 and 2016.

As per recent research, countries such as Cyprus, Greece and Portugal need to introduce alternatives to complement sun, sea and sand if they want to remain top tourist destinations and help their economies grow. Studies claim that these countries could increase their tourism revenue by offering holidays focusing on wine and gastronomy, culture, religion, conferences and agrotourism, such as farm-based holidays. The expansion of the tourism product may reduce seasonality of sun, sea and sand tourism and may attract visitors with higher spending power.

In an effort to combat seasonality and to enhance the quality of the tourist experience, Cyprus needs to maximise other unique selling points. Gastronomy/ food tourism is an emerging trend and one that is no longer limited to high end or niche markets. In addition the Cyprus Sports Organisation and the Cyprus Tourism Organisation are aiming to promote and develop sports tourism that is estimated to generate revenue that exceeds €40 million, according to the two organisations.

## Factors affecting the tourism industry

### Tourist areas in Cyprus

The key tourist areas in Cyprus are Famagusta area, Paphos (including Polis Chrysochous) and Limassol. The market is primarily driven by tourist arrivals during the summer months at the seaside resorts in these areas. While the markets of Protaras and Ayia Napa, comprising the Famagusta area, mostly shut down during the winter months. Paphos and Limassol remain open to tourism all year-round and offer cultural events, history and archaeology, as well as specialised sports such as golf.

### Types of tourism

According to studies, most tourists visit Cyprus for leisure, whilst sun and sea are the most important incentives for choosing the island as a destination. Nevertheless, Cyprus aims at expanding its "special interest tourism", which includes cultural tourism, health and wellbeing, conference and events tourism, religious tourism, agrotourism, weddings and honeymoons and sports tourism.

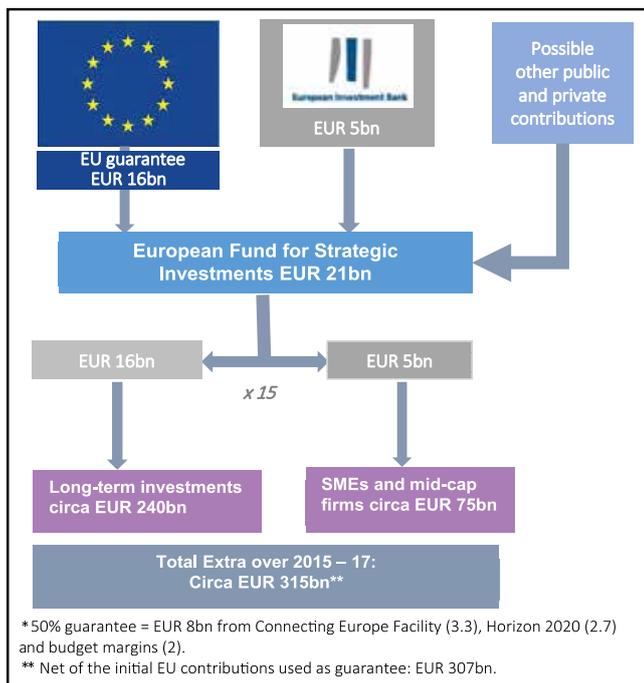
Cyprus' main advantages as a destination for cultural tourism include its heritage, clean archaeological sites which are easily accessible and valued guide services. Health and wellbeing tourism is becoming quite a popular form of tourism for Cyprus, attributable mainly to the high quality of services and facilities provided. Lastly, it is important to highlight religious tourism is growing, primarily because of the easy access and civility of churches. The demand for religious tourism is mainly driven by northern European countries such as Russia which have similar religious beliefs to Cyprus.

### Promotion of Cyprus

The Cyprus Government is preparing a new national strategy on tourism that will further promote Cyprus and aim to enhance its advantages as a tourist destination, whereas at the same time address the challenges that hinder growth in this sector. In particular, a review and modernisation of laws and regulations governing the tourism industry is currently being prepared.

Moreover, the Government has announced its intention to set up a specialised body, via which the tourist industry will be able to draw funds from the European Commission President's Investment Plan, to enable them to upgrade the island's tourist product. The Investment Plan focuses on removing obstacles to investment, providing visibility and technical assistance to investment projects and making smarter use of new and existing financial resources. To achieve these goals, the Investment Plan focuses on three areas (a) mobilizing investments of at least €315 billion in three years, (b) supporting investment in the real economy and (c) creating an investment friendly environment (Graph 7).

Graph 7



In addition, Jean-Claude Juncker, State of the Union Address, European Parliament, 14 September 2016 stated plans to “double the duration of the Fund and double its financial capacity to provide a total of at least €500 billion of investments by 2020.”

The CTO’s tourism strategy provides a coherent and detailed presentation of the development of the tourism sector and the positioning of Cyprus on the international tourism scene.

The strategy’s objectives are to:

- Increase total direct and indirect tourism revenue
- Increase tourism arrivals
- Deal with the phenomenon of seasonality and subsequently the alleviation of the negative results it creates
- Improve the viability of tourism enterprises
- Upgrade the overall tourism experience offered by Cyprus, by providing an enhanced tourist product with significant value added, thus improving the competitiveness of the tourist industry in Cyprus in comparison to other destinations.

The strategy incorporates proposals to expand and improve the operating period and occupancy rates of licensed hotels and accommodation establishments, to improve the competitiveness of the tourism industry in Cyprus, upgrade the appearance of the built environment in the tourist areas and promote professionalism among tourist service providers through continuous upgrading of knowledge, skills and abilities of the people working in the industry.

The tourism strategy includes an analytical marketing plan. The plan incorporates substantiated targeting of specific segments of the market (through comparative analysis and evaluation), the development of viable marketing targets and the use of implementable strategies. Advertising and promotion will focus on pillars of creative design, purchase of space/time in the advertising media and the evaluation of advertising actions. Special focus will be placed on the identification and enhancement of awareness of Cyprus as a tourist destination, as well as on improving the accessibility to the island via the development of new air links. In addition, the use of the internet will assist in promoting Cyprus in an electronic environment and in establishing a comprehensive e-Business context.

The government aims at assisting in growing the tourist appeal of Cyprus, through a number of measures, including the extension of the tourist season to cover the months of December to March inclusive, as well as the implementation of an “Open Skies” policy in an effort to extend both the number of originating airports as well as flights. This aims to help their goal to increase arrivals of tourists to over 3,5 million over the next five years.

Cyprus has two international airports, one in Larnaca and one in Paphos. Both airports are managed and controlled by Hermes Airports Ltd, which offers an incentive scheme to all airlines flying through the airports. Hermes aims to increase the volume of passengers, reward airlines for long-term capacity growth, open and stimulate new tourism markets, encourage winter tourism and enhance the competitive advantage of Cyprus as a tourist destination. Recent examples are the launch of new services such as Dubai-Larnaca-Athens by Emirates and Larnaca- Brussels by Ryanair in 2016.

The incentive scheme includes the following initiatives:

- New routes
  - Provision of €14 per arriving passenger to airlines as a cost reduction measure
- Winter Capacity
  - Programme targeted to reward airlines for increased traffic on existing routes, offering up to €10 per incremental arriving passenger.
  - Hermes, hoteliers and the CTO are working together to increase winter traffic targeting northern colder climates and market segments disposed to travel outside the summer season.
- Long-term volume
  - Hermes offers a reduction of airlines’ operating cost of up to €25 per arriving passenger by requiring long-term commitment of up to five years and the introduction of new routes and frequencies on a year round basis.

### Quality of tourist product and challenges

The tourist product in Cyprus is comparatively more expensive than other Mediterranean destinations. This, accompanied by increased competition, has resulted in the rise of all-inclusive packages, especially for arrivals from the UK, Russia and Sweden.

The quality of the tourist product in Cyprus and the real estate component of the industry need further improvement in order to enhance the value-for-money options for tourists. This means both upgrading and up-scaling of hotels and existing infrastructure (including archaeological and other cultural sites), as well as the addition of new projects such as casinos, marinas, golf courses, theme parks and other facilities.

The Ministry of Energy, Commerce, Industry and Tourism launched an Incentive Scheme for investments in the sustainable enrichment and upgrading of the tourism product, a programme lasting for the period from 2007 to 2013 with an overall budget of €13 million. It was co-funded by the EU's European Regional Development Fund and in 2013, the CTO announced the continuation of this plan. The purpose of this incentive programme is to enrich and diversify the tourism product with the development of special products as well as the comprehensive upgrading and modernisation of existing tourism accommodation. The plan also provides incentives for urban character but no economic incentives in the form of a grant. This involves primarily the increase in the current coefficient and change of use to create either housing units or buildings with offices, retail, etc.



# Who we are

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We have more than 189.000 professionals worldwide working together to deliver value in 152 countries.

KPMG's dedicated practice in Cyprus was set up more than a decade ago with the aim to advise clients on a diversity of issues relating to the real estate, hospitality, leisure and tourism industries. Our global coverage, the network and international experience of our team, combined with the ability to draw upon local know-how within the KPMG international network, give us unparalleled credibility in advising in the real estate, leisure and tourism fields. KPMG clients range from international hotel chains to independent hoteliers; from individual hotel investors to international private equity houses investing in hotels and resorts; from financial institutions to real estate developers.



# How can KPMG help?

KPMG operates through fully integrated teams that include professionals across our Audit, Tax and Advisory practices who combine a wide range of skills and experienced tailored to meet the individual needs of our clients. We believe in bringing our clients to the centre of everything we do and positioning ourselves at the heart of their business. This enables us to fulfil our role of providing advice based on a thorough understanding of their objectives.

Particularly our Travel, Leisure and Tourism practice can assist you through a number of projects, including the following:

- Market and financial feasibility studies – strategic market assessment and comprehensive financial analysis to assess potential investment returns for different projects in different target markets
- Project conceptualization and investment planning – development of realistic and implementable concepts with short, medium and long term investment planning
- Project Management and Business plans – strategic direction for the realization and delivery of project concepts, from financing to staffing and marketing and sales
- Business performance improvement – assessing existing facilities and providing approaches for cost savings whilst simultaneously enhancing market opportunities
- Valuation services – preparation of asset and business valuations for financing assessment
- Transactions services – vendor or buyer due diligence, assisting in the sales of hotels and resorts
- Deal structuring – advice as to the efficient legal and tax structuring of a transaction
- Restructuring services - assistance in identifying, developing and implementing restructuring actions that can provide improvements to cash flow, profit and loss, and the balance sheet
- Management, lease and/or franchise contract negotiations – operator selection and negotiating hotel operating agreements on behalf of clients
- Investor search – preparation of the information memorandum for the investment opportunity, as well as approach and selection of interested investors and assistance in the transactions process
- Our People and Change Services helps organizations drive business value and enhance business success through the optimization of their people. We do this through the following core service lines:
  - HR Function Optimization
  - Workforce Optimization
  - Organizational Design for Performance
  - Talent Management
  - Executive Search and Selection Services
  - Support for the Acquisition of Professional Certifications (Investors in People, Equality Standard)
  - Behavioural Change Management
  - Outplacement Services
  - Compensation and Benefits Surveys.



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