

# The impact of COVID pandemic on Cyprus SMEs in the Tourism Industry

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## Abstract:

A new international health crisis (Covid-19) is testing the resilience of society and the economy, including tourism. With most economies in a "downward spiral", governments are trying to take steps to contain the recession. The purpose of this article is to present shortly how tourism SMEs in Cyprus have reacted to the crisis caused by the pandemic. The Ministry of Culture and Tourism has issued the CTO tourism strategy for Cyprus with the aim of guiding the tourism industry in the production and implementation management phase, creating a roadmap for this sector.

**Keywords** —health crisis, pandemic, tourism SMEs, consequences of the pandemic

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## I. INTRODUCTION

In the last decade, the tourism industry has grown significantly regarding its significance to the world economy. However, it has been twelve years since the beginning of the last financial crisis, which stigmatized the world economy, and a new international health crisis (Covid-19) is testing the resilience of society and the economy, including tourism. With most economies in a "downward spiral", governments are trying to take steps to contain the recession (Kalyankar, 2020). Estimates of the severity of the recession vary and will depend on both the pandemic response policy and its duration (World Health Organization, 2020). It is noteworthy that the economic effects of the crisis differ from those of the previous financial crisis. It seems that the crisis will negatively affect both the supply side and the demand side, creating a domino of cataclysmic developments. The difference is related to its origin because the coronavirus crisis did not start in the financial markets and then spread to the real economy (Carruthers, 2020).

On the contrary, today's shocks have arisen - due to the coronavirus - from the real economy and

there is a fear of being passed on to the financial markets. Governments, with the ultimate goal of reducing shocks, have taken steps that can be categorized into three parts: • Budget boost, with increased public spending and subsidies for affected workers and businesses, • Suspension of payments, for some months, insurance and tax liabilities and loan agreements and • Providing guarantees and liquidity through business loans (Carruthers, 2020).

The above measures, although necessary, do not seem to be able to prevent the recession. Europe, and the eurozone in particular, needs to implement a substantial package, as the latest figures show that Member States are at the heart of the pandemic. According to the forecasts of international organizations, but also of the European Commission itself, the EMU countries will be tested once again; for this reason, they will have to act quickly and collectively, giving the appropriate message to both the markets and the citizens (Sumner et al, 2020).

The purpose of this article is to present shortly how tourism SMEs in Cyprus have reacted to the crisis caused by the pandemic.

## **II. THE IMPACT OF THE ECONOMIC CRISIS ON TOURISM**

Cypriot tourism is in a difficult position as it has to face one of the most difficult crises in the history of mankind – just exiting from the financial crisis. A particular attention should be given to the impact of crisis on Cypriot SMEs. In 2013 the employment in Cypriot SMEs had declined by -7 percent while their added value (it is equivalent to the increase in value that business creates by undertaking the production process) had fallen to -9 percent. The total losses between 2010-2013 were 13% in employment and 14% in added value. Approximately 10,000 Cypriot SMEs in the construction, trade and food industries shut down or the capacity of their activities reduced seriously. The dept of non-financial corporations in one year has doubled from 120 percent to 230 percent by the end of 2015 (European Commission, 2015).

The COVID 19 pandemic has forced the Cypriot government to take drastic measures to address the virus that directly affects the tourism sector of Cyprus, a sector that is considered one of the most important in the Cypriot economy. Hoteliers, tourist offices, restaurants, airlines and public transport have been hit hard by the inevitable economic crisis, which is expected to be bigger than the 2008 banking crisis.

Based on the situation today, the months of March, April and May have already been lost for tourism. The increase in the number of cases of the virus in the country in combination with the travel instructions of all European countries, including the United Kingdom, have put a brake on the arrivals of tourists in Cyprus and the entire tourism industry on the ventilator. June is expected to follow the same pattern and the relevant services should emphasize the months of August and September. The month of September attracts families of tourists over time and is something that the competent services should take into account when preparing their strategic plans. Unfortunately, not much can be done to avoid losses in the industry in April, May and June, but it is necessary to develop a differentiated strategic plan for tourism for the months of August-

October. At this time, tourism is at the mercy of painful situations due to the virus and embarrassed tourist units are trying to fight without having any arsenal (Lu et al, 2020).

## **III. DEALING WITH THE CRISIS**

The crisis in the tourism sector, however, is defined as any incident that may jeopardize the normal operation and conduct of tourism-related businesses. To destroy the overall reputation of the tourist destination for safety, attractiveness and comfort, negatively affecting the visitor's perception of this destination and, in turn, cause a downturn in the local tourism economy and disrupt the continuation of business activities for the local travel and tourism industry, by reducing tourist arrivals and spending. Crisis strategies that can affect tourism can be documented in two ways that governments have to deal with each other that tourism businesses have to deal with.

First, both sides must have an action plan before the crisis. Governments will have to respond to the turmoil in the tourism industry in order to influence the pace of industry recovery. The strategies that the Cypriot government can implement for tourism businesses and related sectors are: tax breaks, compensation to tourism businesses and related sectors, increased premiums, limitation of the scope of liability of tourism businesses and related industries for results of the global financial crisis, allowances for late payment of excise duties and compensation to employees.

Strategies that tourism businesses can implement in Cyprus, for example, luxury hotels can rely on marketing strategies to attract new customers, while budgets can offer discounts. Tourism businesses can adapt work, operational and numerical flexibility as mentioned above. Tourism businesses can also move into new markets and change marketing strategies according to the domestic and global market. According to the above, the financial crisis of 2013, neither the tourism companies nor the government in Cyprus, could have predicted the

event and, therefore, failed to prepare in advance. Although Cyprus has become one of the top ten destinations in the world. This plan has helped Cyprus find the way to the right strategies.

During the crisis years, the government supported domestic tourism with the CTO strategy, so that the Ministry of Culture and Tourism, the Cyprus Hotel Federation, the Association of Travel Agents and the tourist airlines could work together to boost domestic tourism with a prepaid booking program, product as cheap as the foreign tourist, so that the occupancy rates of each hotel reach a higher level and the hotelier could face the global financial crisis.

The Cypriot government has invested in new tourism products such as culture, health, education, nature, faith, yachting, golf, winter and tourism conference etc. The price and quality have been balanced according to the first years. Cyprus has invested in new destinations. The Cypriot destinations are new and are being discovered in relation to their competitors. Hotels in Cyprus are younger than France, Spain, Greece and other Mediterranean destinations. For example, the age of hotel hotels in Cyprus is 6.5 years, while in France 24, in Italy 27 in Spain 30 and in Greece 21. This makes these hotels much more modern and capable than the rest. Cyprus is also a nearby destination for European tourists. This is an advantage for the tourist who wants to stay longer and pay less.

Support from major European travel agents (for example TUI and Thomas Cook) has helped Cyprus receive more tourists from Western Europe. While the number of tourist visits to Cyprus from the Middle East increased the number of visitors visiting the country from Europe and America decreases. The government has also balanced employees and tourism businesses due to late payment of excise duties and labour tax on tourism businesses caused by the financial crisis. On the other hand, Cyprus received much more tourist traffic than in previous years due to the changing profile of tourist complexes. According to Tham et al. (2020), SMEs can accelerate their recovery by

implementing a well-structured crisis management plan.

#### IV. CONCLUSION

Concluding, the crisis was met with reactionary and ad hoc measures at organizational, regional and national levels. However, the CTO Action Plan has helped tourism businesses and the government find the right strategies for the tourism industry. This action plan is provided below. Countries in which the tourism industry is of great importance have developed action plans to ensure that development cooperates with the relevant sectors. Cyprus has adopted an action plan for tourism in the period 2019-2025. Regarding SMEs in tourism, managers should focus on increasing competitiveness and efficiency without compromising their marketing position, as previously suggested by Alonso-Almeida and Bremser (2013). The Ministry of Culture and Tourism has issued the CTO tourism strategy for Cyprus with the aim of guiding the tourism industry in the production and implementation management phase, creating a roadmap for this sector.

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