



## **Weekly Briefing**

### **Croatia economy briefing:**

**Crisis in Croatian Tourism: the end of ‘the sea and the sun’  
paradigm of tourism policies after the negative outcomes of tourist**

**season 2019**

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# **Crisis in Croatian Tourism: the end of ‘the sea and the sun’ paradigm of tourism policies after the negative outcomes of tourist season 2019**

## **Summary**

*The tourist season in Croatia in 2019 has faced the biggest challenge so far in its history. The structural problems that have followed Croatian tourism from year to year have come to pay its debt. Lack of additional and varied facilities in the tourist offer, a large shortage of skilled labour, inadequate price policies and the reopening of other Mediterranean destinations such as Greece and Turkey are one of many inevitable structural problems of Croatian tourism. During the peak of the tourist season, it was evident that the implemented tourism policies were wrong. Battle between interest groups (media, tourism entrepreneurs) and the Ministry of Tourism have waged for weeks about presenting the real status of tourism in Croatia. Finally, direct data from the 2019 tourist season forced the government to adopt urgent economic measures. However, all the government's efforts came too late. With the 2019 tourist season, the reactive tourism policies paradigm is finished. Structural problems have been identified and governments from now on will have to completely transform the way they manage the tourism sector in the coming years.*

## **Introduction**

Tourism is the most important economic branch of the Croatian economy. It amounts to 17% of GDP. Paradoxical to that fact, Croatian governments focus very little on developing tourism more broadly. They consider that the wealth of natural beauties such as the Adriatic Sea, islands, coasts, national parks, etc. will, as usual, regularly and safely replenish the state budget. This view is not shared by tourism entrepreneurs whose representatives in Rovinj warned at a conference of the Croatian Chamber of Economy in 2018 that the next tourist season will be much more demanding than the last one. The source of the problem for the next year of Croatian tourism they've marked are huge shortage of skilled labour, an inadequate tax policy, the necessity for legal changes for work in the tourism sector and the reopening of competing Mediterranean destinations such as Turkey and Greece. All this, they said, will have negative effect on the 2019 tourist season. However, Minister of Tourism Gari Cappelli said that the peak of the tourist season is likely to be at the same level of last year, but that the total tourist traffic will increase by up to 3 per cent compared to last year, which is why he believes that there is no room for panic. Minister Cappelli's words will soon be called into question. In May,

because of the prolonged rains, profits of pre-season will suffer high losses. Furthermore, caterers' associations will demand an early change in tax policy and a change in the labour market regulations in order to attract as many tourists as possible with attractive tourist offers and to employ as much skilled labour as possible, using the possibility of a more flexible legislative framework for hiring imported foreign labour. Despite the partial adoption of emergency measures by Minister of Finance Zdravko Marić in cooperation with tourist entrepreneurs and Minister Cappelli, the structural problems of Croatian tourism could not be solved.

### **Expensive tourism and lack of skilled labour**

In the period from 2011 to 2016, the number of guests from the United Kingdom increased from 260.000 to 640.000 in the Croatian tourism. However, this year, due to uncertainty about the date when will Brexit finally commence, British citizens decided to postpone their holiday reservations, which had reflected on the supply and demand of tourist destinations across Europe. Before the beginning of summer holidays, the well-known British newspaper *The Sun* has compared 2019 prices of popular tourist destinations for the British public, including Spain, Bulgaria, Cyprus, Turkey and Croatia. The comparative analysis of the prices of different destinations proved that Croatia increased the prices of its tourist goods and services by 20%, while other destinations lowered the prices of its tourist offers by about 10%, which positioned Croatia as the most popular tourist destinations for British citizens. It is clear that such a rise in tourist offer prices will affect the overall picture of tourist season traffic. However, high prices were linked to another structural problem of tourism policy; namely, with an acute shortage of skilled labour.

Tourism entrepreneurs, most notably hospitality sector, have diagnosed just before summer that they urgently lack 5.000 skilled workers for work in tourism to achieve successful tourist season. Filling in such a shortage of skilled labour is not an easy task to accomplish, given that these are physically demanding jobs that are generally not as well paid in Croatia as in the neighbouring countries. Among the currently reported unemployed workforce at the Croatian Employment Service are mostly older people and/or low educated, which usually means that they are not ready for hard work and/or do not have any foreign language skills. Entrepreneurs were pressuring government to increase the quota of foreign workers in order to achieve a positive growth rate of income from the tourist season. However, Minister Marić made it clear that before such an increase in the quota of foreign workers from abroad, price policies of tourism businesses has to adapt with the supply and demand with other competitive

destinations on the Mediterranean market. Urgent fiscal measures were agreed only when the situation really became dangerous for the entire tourist traffic, whose delays were already felt in the very important month of July.

### **July Slump: the turning point of Croatian tourism policy**

By the number of guests, reservations and half empty beaches it was already quite clear in July that something had gone terribly wrong for this year's tourist season. For weeks, the media published headlines about the catastrophic tourist season, putting pressure on the government, notably Minister Cappelli, to make statements every now and then about the latest official information on status of tourist season traffic. The first information that came out about the status of July were the results of the first 12 days of month, in which it was evident that tourist traffic compared to last year has decreased in the number of overnight stays by 5%, tourist arrivals decreased by more than 6%, etc. In early August, the media published the full picture of July 2019 compared to July 2018, calling the occurrence of a huge shortfall in tourism traffic a 'July Slump'. Overall, in July 2019, there were 544,000 fewer overnight stays and 90,000 fewer guest arrivals, which will, experts say, translate into much lower earnings from this tourist season which will have multiple negative effect on Croatian economy. Minister Cappelli had publicly ignored this information, assuring the public that the tourist season was not in crisis, that the picture of the whole season would be corrected in August and that the total traffic of the tourist year would increase by several per cent.

Such optimism was not cultivated by hospitality sector, who were facing much less traffic than last year. Caterers claim that a much smaller group of tourists came to Croatia who usually spend much more, such as the Germans. Furthermore, tourism in Turkey has attracted many more guests, given the much more affordable prices of tourist offer than Croatia and the recent abolition of the state of emergency in the country. With these proactive tourism policies, Turkey has already increased by 14% more guests in the first seven months of the tourist year than last year, which has undoubtedly affected other Mediterranean tourism destinations. Croatian tourism policy is reactive, say caterers and other tourist entrepreneurs and that it is its biggest weakness. With all the macroeconomic and microeconomic policies that hinder the economic growth of Croatian tourism, the policy of spontaneous apartmanisation also prevails. Property owners near the Adriatic coast and in major cities massively rent out their properties during the tourist season, even if those were their only properties. The cost of long-term and short-term rentals is so high that it is worthwhile for the owners of attractive properties to live outside their home for a few months to repair their annual home budget. Such a policy is unsustainable in

the long run, many experts say, given that, due to the excessive volume of tourist accommodation, many other tourist facilities cannot make full use of their tourist capacities, which is why their business plans are failing and from which whole Croatian tourism has negative consequences and, vice-versa, for the entire Croatian economy.

## **Conclusion**

The tourist season of 2019 has revealed all weaknesses in Croatian tourism policies. Finally 'the sun and the sea' policy has failed. Tourism policy is forced to change its paradigm and invest more in the content of tourism offer. In 2019, Croatian tourism has shown that it has only been existing in August, and in July it fails to fill its capacity. By opening other Mediterranean destinations with more attractive offers, such as Turkey, Croatia is inevitably losing profit. In addition, the large shortage of skilled labour for tourism is an additional serious economic problem. Without guests, without skilled labour and with excessive, chaotic apartmanisation, tourism in Croatia is in danger of falling behind competitors in Mediterranean tourism. If tourism earnings fall, the entire Croatian economy collapses. Economic stability is a precondition for the success of tourism, and the failure of tourism in Croatia will cause economic instability. Croatian government, therefore, must consider over tourism policies to prevent this vicious circle in which Croatian citizens could find themselves, and 2019 is only a sign of the path which had been leading Croatia to the abyss.