



Weekly Briefing

**Croatia economy briefing:
Impact of COVID-19 measures and war in Ukraine
on Croatia's tourist season
Paolo Carzedda**

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: : Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

Impact of COVID-19 measures and war in Ukraine on Croatia's tourist season

Summary

Croatia's tourist sector is struggling to go back to 2019 levels: after two tough years of COVID-19 pandemic crisis, and the consequent health restriction measures which have constrained the free movement of people around Europe, and consequently affected especially the touristic sector, this year, this sector must face another challenge: the Russian invasion of Ukraine. This war may affect the 2022 tourist season not only considering the fact Croatia is a target destination for many Russian tourist, but also regarding the consequences of rising prices especially the oil, gas and relative derivatives.

Introduction

The tourist sector accounts for almost 7% of jobs in the OECD countries, and during the COVID pandemic the sector was one of the most hit: 1 billion fewer international trips were registered in 2020, with negligible improvements in 2021. Indeed, foreign exchange tourist revenue in 2021 was nine billion and 121 million euros, or 87 percent of the pre-pandemic year's statistics¹. The new health situation concerning the pandemic, and the positive effects triggered by the vaccination campaigns, indicates that the recovery of the tourist sector and for a season which might have been, in numbers, similar to the pre-pandemic levels. Nevertheless, the stakeholders of the sector must face an additional concern triggered by the Russian invasion of Ukraine, especially for countries like Croatia which heavily rely on tourism revenues.

The restriction measures to fight COVID19 spreading were lifted on the 2nd of May, allowing travellers from any country to enter in the country without COVID passports or to prove their vaccination status, the Croatian Tourism Association and the Government honestly believed this would have further motivated international tourists to visit the Adriatic coast.

¹<https://www.vecernji.hr/vijesti/prihod-od-turizma-u-2022-mogao-bi-nadmasiti-i-105-milijardi-eura-iz-2019-1583415>

Unfortunately, the effects triggered by the Ukrainian war on a global level may also affect the coming tourist season.

This briefing explains how a better health situation related to the pandemic might not be enough for the recovery of touristic sector. The problem is not only related to the collapse of Russian and Ukrainian bookings in Croatia, or to the fear of the US citizens who see Croatia much closer to the war battlefield than we actually do, but is also connected to many additional factors: inflation due to the rising energy prices, and above all, the closure of Russian airspace for business flights which will surely constrain Asians booking holidays in Europe.

Repealed COVID travel restrictions

Rapid fall in new COVID-19 cases, , triggered by the vaccination campaign and the end of the winter season, allowed the Plenković's government to repeal the travel restriction on the 2nd of May: now, for tourists is no longer required to show their COVID pass or to prove their health status. This decision has let many tourist operators to hope the coming season would have brought the number of visitors close to the 2019 level, which was a record year for Croatia earning more than 10 billion euro from foreigners. Significant mitigation of epidemiological measures would have ensured the perception of destination security, though the sector might face growing problems related to the international political situation triggered by the Russian invasion of Ukraine and its consequences, and the hope of bringing the number of presences to the 2019 record may vanish.

Falling flights booking and new routes: bypassing the Russian airspace

The American confidence in the safety of Europe as a safe place for holidays will certainly reduce the presence of tourist coming from the States: for US citizens Croatia may be seen as much closer to the Ukrainian battlefields than actually is, and this is already affecting advance booking for travel in Croatia. For instance, Dubrovnik Boats, a tourist operator working around the city and island of Hvar, and whose customers are mainly US citizens, has already experienced a minus 70% in bookings since the start of the war.

In general, at the beginning of April, the OECD and Forwardkeys reported that Croatia had experienced a -30% to -50% fall in bookings since the 24th of February²³. For the Russian tourist, the situation might be ease by the fact that Serbia still remains an open-air corridor for Russian business flights, but there are no data how this would benefit the tourist season in Croatia. Nevertheless, Croatia is unlikely to experience a significant presence of Russian tourist as did in 2019 when Russian presences counted for 139 thousand arrivals⁴.

The issue is much more complicated for Asian, especially Chinese, tourist market: the 3rd of March Eurocontrol⁵ and an OECD's report, a civil-military organisation supporting European aviation, proved how this closure has added time and cost for many flight companies travelling between Asia and Europe.

Rising energy prices and inflection

Since the Russia's tanks passed through the Ukrainian borders, all the European countries have seen energy commodities' prices skyrocketing and this have impacted all the economic sectors, since Russia was the main gas and oil supplier for almost all EU countries as well as for the Croatian Republic. Certainly, this will also affect tourism and the coming holiday season. Businesses in the sector such as hotels, restaurants and tourist operators, which are still healing from two years of Covid pandemic and relied on this season for a strong recovery, are already facing higher energy prices and this might induce an increase in prices related to their services.

And this actually might be different in Dubrovnik than in Istria or in Zadar: Dubrovnik tourism which deeply relies on cruise tours, might face a slowdown in booking since higher fuel prices for cruise company can increase ticket prices. Indeed, according to Dubrovnik Boats, as reported by the New York Times, the cost for a round trip from Dubrovnik to the island of Hvar may rise up to 750 euros more. Besides, the city has to deal with an additional constrain: Dubrovnik can be reached mainly through business flights, and higher energy prices might also

²<https://oecdcoigito.blog/2022/04/08/more-tough-times-ahead-for-the-tourism-sector-the-impacts-of-the-war-in-ukraine/>

³<https://www.nytimes.com/2022/04/01/travel/europe-tourism-ukraine-war.html>

⁴<https://www.thedubrovniktimes.com/times-travel/item/13182-consequences-of-war-in-ukraine-could-greatly-influence-tourism-sector-in-neighbouring-country>

⁵<https://oecdcoigito.blog/2022/04/08/more-tough-times-ahead-for-the-tourism-sector-the-impacts-of-the-war-in-ukraine/>

raise ticket prices, especially for international flights, on which the tourist operators in the area rely on.

An additional problem, which also hit both the operators and customers of the tourist sector, is the inflation of basic commodities: Ukraine and Russia counts as two of the main suppliers of grain in the world, accounting for almost 30% of the world's of internationally traded wheat⁶. This has raised prices basic food prices such as bread, pasta, but also cooking oil. Therefore, this might be a problem for restaurants and hotels which might see general costs increase and therefore manage their costs with higher service prices.

Conclusion

With no doubts, the mitigation of COVID restrictions and measures will not be enough counterbalancing the consequences caused by the Russian invasion of Ukraine, which are influencing economic performances of the tourist sector and, above all hitting the purchasing power of travellers which will have less money to book holidays in Croatia. In general, the year for Croatian tourism began with minuses compared to 2019 numbers, given the commencement of the crisis in Ukraine.

In the first four months, 1.6 million visitors came to Croatia, with five million overnight stays, therefore 25% fewer tourists and 12% fewer overnight stays were registered, compared to 2019⁷. Moreover, the closure of the Russian airspace and the prohibition for Russian fly companies and to fly above the European skies, except the above the Serbian one, will certainly decrease significantly not only the presence of Russian tourists, but also will add difficulties for Asian tourists travelling to Croatia. However, the situation might change region by region: for instance, the region of Istria, as *Večernji list* reported, registered 3% more overnight stays in Istria in the first four months of 2022 than in the previous record year, meaning 2019. If the season continues in this manner, with no additional negative impacts, Istria might surpass the 4.8 million tourists and 28.5 million overnight stays recorded in 2019⁸.

⁶<https://www.bbc.com/news/uk-scotland-60644376>

⁷<https://www.vecernji.hr/vijesti/prihod-od-turizma-u-2022-mogao-bi-nadmasiti-i-105-milijardi-eura-iz-2019-1583415>

⁸<https://www.vecernji.hr/vijesti/prihod-od-turizma-u-2022-mogao-bi-nadmasiti-i-105-milijardi-eura-iz-2019-1583415>

To sum up, there is no certainty that Croatia will catch the 2019 record of presence in the coming season as the tourist operators expected it. This is mainly due by the increasing prices in the tourist sector, triggered by general inflation, higher general food and energy prices, and also for the fact that the closure of the Russian airspace will lengthen travel time and costs for Asian tourists and fly companies, especially Chinese and Japanese.