Cyprus Tourism Market Report

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

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Overview

The tourism market is one of the largest economic sectors in Cyprus and has experienced substantial growth over the last five years, with tourists averaging around 2,315 million per year.

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. Cyprus’ famous beaches have been awarded with 53 Blue Flags having 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.

Overview of the tourism market in Cyprus

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.

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

Paphos is a popular coastal town in the southwest of Cyprus. It offers 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 appointed 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. Limassol has the largest port in Cyprus. The 650-berth Limassol marina which was officially opened in June 2014, has already been compared very favourably with other marinas in the region and further afield.

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.

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.

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

Cyprus is expected to implement the ‘Open Skies’ policy in an effort to extend both the number of originating airports, as well as aircraft operators.

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 798 accommodation units in Cyprus as at 30 June 2014, with an overall bed capacity of 87,218.

Cyprus Economy

This year will be Cyprus’ third year in the Economic Adjustment Programme (‘the Programme’) entered into with the Troika (consisting of the European Commission (‘EC’), the European Central Bank (‘ECB’) and the International Monetary Fund (‘IMF’)), following the Eurogroup meeting on 23 March 2013. The Programme covers the period 2013-2016 and aims at addressing the financial, fiscal and structural challenges that the Cyprus economy has been facing. It projected a recession in 2013-2014 and a gradual recovery in 2015-2016 and thereafter.

The financial assistance provided to Cyprus is subject to quarterly reviews and is based on the implementation of the Memorandum of Understanding on Specific Economic Policy Conditionality (‘the MoU’). However, due to the repeated suspensions of the legislation on foreclosures by the House of Representatives in late 2014 and early 2015, the sixth review of Cyprus’ Economic Adjustment Programme has not been completed as of the date of writing.

Nevertheless, the Troika has continued its visits to Cyprus, mainly at a technical level, and has reviewed the progress achieved, as well as noted the challenges that lie ahead, including the magnitude and pace of private sector deleveraging and the ability of banks to address the high-level of non-performing loans (‘NPLs’).

Significant progress has been made since 2013, yet there are important commitments that need to be fulfilled. Along with the ongoing discussions regarding the new insolvency framework which is interlinked with the
suspended foreclosure law, further structural reforms need to be progressed. In particular, these involve the reform of the public sector, the health care sector and the social welfare system, as well as the privatisation of state owned corporations.

Economic update

Fiscal reforms

Fiscal targets have been met indicating the prudent budget execution and a less severe deterioration of economic activity than originally projected. Also, the prudent budget for 2015 will further contribute to the early adoption of the fiscal consolidation which is required for the years 2015-2018 according to the MoU. The medium-term primary fiscal surplus target is to achieve and maintain a surplus of 4% of GDP in 2018, which will put public debt on a sustained downward path.

Despite the IMF projections for a -4.8% contraction in 2014 (Graph 1), the economy contracted only by 2.3% in 2014. Moreover, according to the winter forecasts of the European Commission, Cyprus GDP is expected to grow at 0.4% and 1.6% in 2015 and 2016 respectively.

Graph 1

**GDP Growth Rate Projections**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>-8.0%</td>
</tr>
<tr>
<td>2014</td>
<td>-2.0%</td>
</tr>
<tr>
<td>2015</td>
<td>0.0%</td>
</tr>
<tr>
<td>2016</td>
<td>2.0%</td>
</tr>
<tr>
<td>2017</td>
<td>2.0%</td>
</tr>
<tr>
<td>2018</td>
<td>4.0%</td>
</tr>
<tr>
<td>2019</td>
<td>-4.0%</td>
</tr>
</tbody>
</table>

*Source: IMF*

GDP in the secondary sector of the economy (Manufacturing and Construction) exhibited negative growth rates in Q4 2014. This was also the case in the sectors of banking and transport, whereas positive growth rates were recorded in the sectors of commerce, accommodation and food service activities, as well as legal and accounting services.

The prudent budget, as well as the higher than expected income from taxation resulted in the general government accounts recording a surplus of approximately €68 million in 2014. The overall surplus reached 0.39% of GDP, compared to a deficit of -4.66% or €844 million in 2013.

Reflecting on the progress made, the three main credit rating agencies, namely S&P, Moody’s and Fitch upgraded the Cyprus economy in October and November 2014.

Financial sector reforms

Significant progress has been made in the financial sector as a result of the recapitalisation and restructuring of credit institutions.

In October 2014, the results of the stress tests performed among 130 banks in the euro area, including four systemic Cypriot banks were published. The Cypriot banks in question were Bank of Cyprus, Cooperative Central Bank, Hellenic Bank and RCB. The overall results of the stress tests were encouraging and contributed to strengthening the general confidence in the Cypriot banking sector. These results also contributed to further easing of capital controls by the Ministry of Finance, whereas merely few capital controls remain in effect following the easing of controls in mid-March 2015.

It is worth noting that there has been a substantial decrease in the rate of deposit outflows in 2014. In addition, there was an increase in deposits for two consecutive months in November and December 2014.

Non-performing loans

The key challenge involves dealing with the high level of NPLs and this was one of the main topics of discussion during the fifth evaluation of the country’s adjustment Programme. According to data published by the Central Bank of Cyprus (‘CBC’), the NPLs of banks in November 2014 reached 49,69% (€28,23 billion) of total loans compared to 48,96% in October. Loans granted to legal entities that are non-performing reached 51,88% of such total loans (€30,3 billion), whilst NPLs on loans to households were 51,72% out of a total €24,2 billion.

The greatest number of NPLs is evident in the construction industry where out of the total €7,2 billion of loans granted, 78,71% (€5,62 billion) are non-performing. NPLs that were restructured by the banks and are now considered performing reached 11,07%. According to the Troika, the treatment of NPLs is essential for the restoration of the country’s creditworthiness, economic growth and the creation of new jobs.
Economic indicators

Interest rates
Interest rates on mortgages in Cyprus are still much higher than in the Eurozone as shown in Graph 2 – approximately 200 basis points higher than average interest rates in 2013 and 2014, despite recent declines.

Graph 2

Interest Rates on Mortgages

Source: CBC and ECB

These above average interest rates, coupled with the tightening of loans granted by local banks, have hindered potential investors from entering the market, both domestic and foreign.

Interest rates on corporate loans are also high. In particular, the average interest rates for 2014 in Cyprus were 6.41% compared to 3.29% in the Eurozone.

As noted above, depository interest rates in Cyprus are significantly higher than those in the Eurozone; the average depository interest rate for 2014 in Cyprus was 2.55% whilst that of the Eurozone was 1.34%.

The decision of the Central Bank of Cyprus in February 2015 to differentiate the maximum deposit rate by one per cent, was a positive and long-awaited development. In essence this decision meant that additional capital requirements will be imposed on credit institutions whose depository interest rates exceeded EURIBOR + 200 bps. As a result, the majority of commercial banks have already announced a reduction in interest rates on loans.

There are other reasons for the high interest rates on loans in Cyprus, including the higher risks resulting from the increase in NPLs together with the lack of liquidity and high operating costs faced by the majority of the credit institutions. It is anticipated that in the medium- to long-term, following the successful implementation of the MoU, the restructuring of the banking sector, the effective handling of NPLs, may also result in further drop in interest rates in the future.

Unemployment
Unemployment increased dramatically over the last four years, showing a cumulative increase of 121% from 2009 to 2014. However, during 2014, there was a considerable decline of 6% in the number of unemployed compared to 2013, possibly indicating the start of the economic recovery.

According to data from the European Statistical Service, the unemployment rate in December 2014 was 16.4%, remaining close to the levels of the year-end 2013 rate of 16.5%.
Tourism Sector Analysis

Industry overview

The 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 2014, the direct contribution of travel and tourism to GDP in 2013 was €1.136,8 million (6,8% of 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 €3.443,6 million in 2013 (20,6% of GDP) and is expected to grow by 7,4% to €3.700,1 million (24,0% of GDP) in 2014, as per the same WTTC report. The total contribution of travel and tourism to GDP includes its “wider impacts” (i.e. the indirect and induced impacts) on the economy. In addition, it is forecasted to rise by 5,1% p.a. to €6.067,7 million by 2024 (30,9% of GDP). This rising trend is in line with the growing demand in international tourism.

According to figures released from the Cyprus Ministry of Finance, the contribution of accommodation and food service activities – which largely comprise of tourism revenue – to GDP in 2013 was €963,4 million (representing 6,27% of GDP).

Tourist arrivals by country of origin

The number of tourist arrivals has experienced substantial growth over the last four years, despite a minor decline in 2013 (Graph 3).

In 2014, tourist arrivals reached 2.441.231, which is approximately at the same levels as in 2013. It is worth noting, however, that for the period from April to August 2014, tourist arrivals were consecutively on average 8% higher than for the same period in 2013.

Most of the tourist arrivals in 2014 originated from EU countries (approx. 92,23%). 59,24% of tourists (1.446.162) were from EU-28 countries in 2014, whilst in 2013 these were 61,77% of total tourists (1.485.854).

In 2014, around 35,70% of tourist arrivals were from the UK, reaching 871.517 persons, as shown in Table 1. This figure is approximately 2% lower than the same period in 2013. For comparison purposes, it should be highlighted that up until 2009, over 50% of visitors in Cyprus came from the UK, indicating the fact that their market share of tourists has decreased significantly in recent years.

Sweden is the third largest source market for tourists to Cyprus, reaching 106.661 tourists during 2014. The fourth place is held by Greece with approximately 100.949 Greek tourists visiting Cyprus in 2014 – this is a fall of 4% from 2013. The declining trend which has been evident in the last years, may be attributable to the financial crisis in Greece resulting in a decrease in overseas travelling.

Tourist arrivals from Germany recorded a 12,67% fall in 2014 compared to the previous year. This market also suffered a material decline of 34% from 2012 to 2013.

On a positive note, an increase of 4,63% was recorded in tourist arrivals from Russia during 2014 compared to 2013, reaching 636.759. Indeed, tourists from Russia have become the second largest tourist market for Cyprus, representing 26% of the market share. At the same time, arrivals from Ukraine also recorded an increase, having risen by 20,77% (41.087 tourists) in 2014 from 2013. Tourist arrivals from Ukraine currently represent a mere 1,68% of the market.

Table 1

<table>
<thead>
<tr>
<th>Country</th>
<th>2014</th>
<th>2013</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>871.517</td>
<td>891.229</td>
<td>-2,21%</td>
</tr>
<tr>
<td>Russia</td>
<td>636.759</td>
<td>608.576</td>
<td>4,63%</td>
</tr>
<tr>
<td>Sweden</td>
<td>106.661</td>
<td>117.958</td>
<td>-9,58%</td>
</tr>
<tr>
<td>Greece</td>
<td>100.949</td>
<td>104.949</td>
<td>-3,81%</td>
</tr>
<tr>
<td>Germany</td>
<td>86.394</td>
<td>98.930</td>
<td>-12,67%</td>
</tr>
</tbody>
</table>

Source: CySTAT

Arrivals from Asia have also been increasing and the Asian tourism market is an attractive one for Cyprus. Such arrivals reached 148.430 in 2014, representing an increase of 42,18%. This is mainly attributable to higher tourist arrivals from Israel and Lebanon (Western Asia). Arrivals from Israel reached 68.817 in 2014, an increase of 57,85% from the previous year.
Revenue from tourism

According to CySTAT, revenue from tourism reached €2.023 million during 2014 (Graph 4), compared to €2.044,8 in 2013 (a fall of 2,83%). Tourism revenue in 2013 however was 8% higher than the previous year, reaching €2.082 million, despite of the 2,4% fall in tourist arrivals.

Graph 4

The highest monthly revenue figure in 2014 was recorded in August at €324,3 million. On the contrary, the highest monthly revenue figure in 2013 was €353,4 million, for the month of September. The slightly lower revenue in 2014 compared to the previous year may be explained by the lower per person and per day expenditure by tourists. More specifically, average expenditure per person in September 2014 was €863,6, whilst this was €988 during the same month in 2013. Average tourist expenditure per day was €81,1 in September 2014, compared to €94 in September 2013 (13,74% fall).

Accommodation and occupancy rates

Accommodation offered in Cyprus mainly consists of hotels, hotel apartments, tourist villages and traditional buildings. There were a total of 798 accommodation units in Cyprus as at 30 June 2014 (Table 2), with an overall bed capacity of 87,218.

Table 2

<table>
<thead>
<tr>
<th>Accommodation units</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels</td>
<td>225</td>
</tr>
<tr>
<td>Hotel Apartments</td>
<td>163</td>
</tr>
<tr>
<td>Tourist Villages</td>
<td>21</td>
</tr>
<tr>
<td>Traditional Buildings</td>
<td>158</td>
</tr>
<tr>
<td>Other Categories</td>
<td>231</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>798</strong></td>
</tr>
</tbody>
</table>

Source: CTO

The greatest number of accommodation units are found in Paphos (273), which is also the city with the greatest number of tourist villages. Famagusta, on the other hand, has the greatest number of hotels (72) and hotel apartments (97). Furthermore, Famagusta has the highest bed capacity of all tourist districts in Cyprus.

Net bed occupancy rates are calculated as the number of occupied beds in a period over the licenced accommodation establishments’ capacity (no. of available beds per night multiplied by the no. 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 rates (85,8%) in the period January to July 2014 were exhibited by tourist villages, followed by hotel apartments (68,5%), (see Table 3).

Table 3

<table>
<thead>
<tr>
<th>Accommodation category</th>
<th>Jan-Jul 2014</th>
<th>% change from Jan-Jul 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels</td>
<td>56,50%</td>
<td>1,60%</td>
</tr>
<tr>
<td>Hotel Apartments</td>
<td>68,50%</td>
<td>-2,20%</td>
</tr>
<tr>
<td>Tourist Villages</td>
<td>85,80%</td>
<td>-2,10%</td>
</tr>
<tr>
<td>Traditional Buildings</td>
<td>21,50%</td>
<td>21,90%</td>
</tr>
</tbody>
</table>

Source: CTO

The highest net bed occupancy rates across hotels, hotel apartments and tourist villages in Cyprus during the same period were experienced in Famagusta, at the respective rates of 80,10%, 86,70% and 95,70%. The highest net bed occupancy rates for traditional buildings were in Larnaca, reaching 25,30%.

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 resident as well as non-resident tourists in licensed establishments in Cyprus for the period from January to July 2014 was 702,7362. Guest nights in hotels exhibited a small increase of 2,70% compared to the same period in 2013, whilst traditional buildings posted an increase of 30,50%. Hotel apartments and tourist villages suffered a decrease of 4,50% and 11,70% respectively. The increased guest nights in traditional buildings was evident for both Cyprus resident and non-resident tourists, emphasizing the potential for development/increased demand in cultural tourism. Interestingly, guest nights of Cyprus resident tourists recorded a fall in all other main accommodation categories.

Seasonality of the tourism industry is evident from the varying number of tourist arrivals from month to month (Graph 5). 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
operations during winter and this is considered as one of the most significant challenges faced by the tourism industry.

**Graph 5**

![Tourist arrivals per month](image)

Source: CySTAT

According to recent studies, Cyprus is hailed as a summer holiday destination and the sea and sun are the main factors for choosing Cyprus. 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.

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 agro-tourism, 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.

**Factors affecting the tourism industry**

**Tourist areas in Cyprus**

The key tourist areas in Cyprus are Famagusta, 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.

Protaras and Ayia Napa are the most popular beach resorts, with a wider and superior range of sandy beaches than the other cities. Ayia Napa is a reputable party town and prime site for nightlife. Famagusta mostly attracts couples, families and young people.

Tourist attractions in Paphos include the Paphos mosaics, the Tomb of the Kings which is a Unesco Heritage site, the Venetian fortressed harbour and the Pillar of St Paul. The Akamas peninsula is one of the island’s residual unspoilt wilderness and is home to endemic flora and fauna species. Paphos mostly attracts couples and families.

Limassol, the second largest city in Cyprus, has recently been ranked by the prominent travel directory TripAdvisor as its 3rd ‘upcoming’ destination, in its listing of the Top 10 Traveler’s Choice Destinations on the Rise around the world. “Cyprus’ second-largest city appeals to a wide range of tourists, from those interested in sun and sand vacations to those who prefer to delve into the island’s culture at its museums and sites of archaeological interest,” TripAdvisor states. The large seaside resort on Akrotiri Bay offers lively nightlife and a slew of energetic festivals, its summary continues, adding that a cornucopia of cafes and bars lines the bustling seafront.

Limassol is situated between archaeological sites, the ancient kingdoms of Amathous, Kourion and Kolossi. Limassol is also home to the newly constructed Marina and the city’s geographical location provides easy access to mountainous villages and Troodos mountain. In addition, the city is an upcoming business centre attracting businessmen, as well as couples, families and young people.

Larnaca has a picturesque old town, a salt lake, a large marina, and a distinctive palm fringed harbour promenade. There is a wealth of historical interest around the town including the St Lazarus church, the Teke muslim shrine, Kiti church and the monastery of Stavrovouni. The city mostly attracts couples and families.

Nicosia, being the capital of Cyprus, is the main commercial and business centre with an archaeological museum, the Venetian walls and Laiki Yitonia which is a labyrinth of traditional streets and alleyways filled with shops. Visitors are usually couples, families and businessmen.

**Types of tourism**

According to studies, most tourists visit Cyprus for leisure, whilst sunlight 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 are its culture and heritage, its clean archaeological sites, easy access to these and valued guide services. Health and wellbeing tourism is a quite popular form of tourism for Cyprus, mainly because of the high quality of services and facilities provided. 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 CTO developed a tourism strategy of 2011-2015 which provides a coherent and comprehensive 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 receipts
- 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 aircraft operators.

It is important to note that in February 2014, Finance Minister Harris Georgiades reiterated the government’s commitment to boosting ailing winter tourism, including the possibility of offering tax incentives and/or reductions in airport landing charges for specific periods. The government’s goal is to increase arrivals of tourists from the current 2.4 million to 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 travelling 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.

The incentive scheme includes the following initiatives:

- **New routes**
  - Provision of €14 per arriving passenger to airlines as a cost reduction measure.
- **Winter Capacity**
  - Program 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 climates and market segments disposed to travel outside 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 Russia and Sweden. However, the devaluation of the Russian rouble against the Euro, as well as the political situation has caused lower expected bookings from Russia for 2015.

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 upscaling 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, and being co-funded by the EU’s European Regional Development Fund; 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 162,000 professionals worldwide working together to deliver value in 155 countries.

The 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 companies 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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