

The Estonian Economy

Tourism: can the success be sustained?

- Estonia has been an attractive tourist destination
- Growth despite fewer visitors from Russia and Finland
- Challenges and opportunities in 2017

Estonia has been an attractive tourist destination

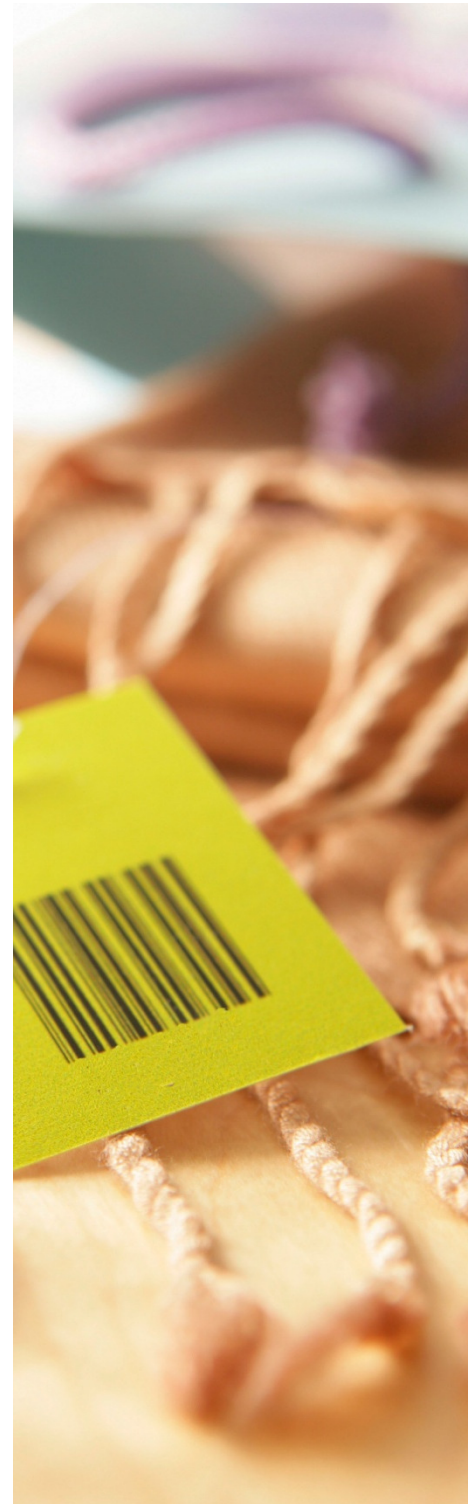
Estonia has been rather successful in attracting tourists. The number of tourists per person has been higher than in Latvia, Lithuania, Finland, or Sweden, or the European Union (EU) average. Estonia's net occupancy rates are also above the European average. Local tourism has been more active in Estonia than in other Baltic countries, but more sluggish than in Finland or Sweden or the EU average, where higher living standards enable higher expenditure on leisure and entertainment, and longer distances mean greater need for accommodation services.

Growth despite fewer visitors from Russia and Finland

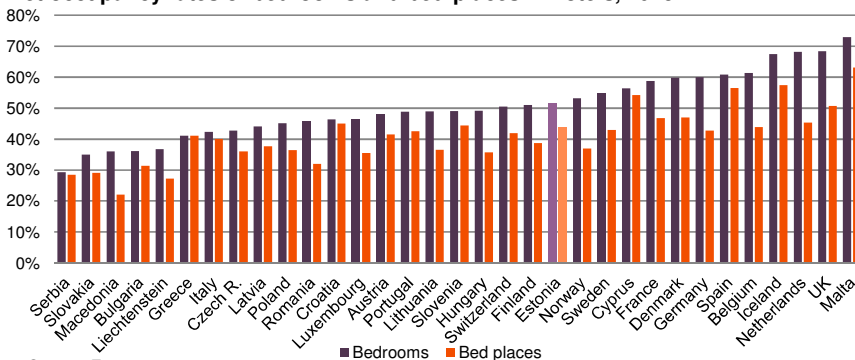
The number of domestic tourists (40% of clients) has increased substantially in recent years, offsetting smaller flows from Russia and Finland. During the first six months of 2016, the number of tourists from Russia stabilised, while the number of tourists from Finland started to grow again. The sector's economic indicators also improved: turnover was 17% and profits 10% higher during the first six months of 2016 compared with the same period in 2015.

Challenges and opportunities in 2017

Next year will bring some challenges and opportunities for Estonia's tourism sector. Estonia will raise the value-added-tax (VAT) on accommodation services, thereby accelerating the convergence of average prices with Western Europe. The recovery of the Finnish and Russian economies, the expected strengthening of the Russian rouble against the euro, and the EU presidency should support tourism flows next year. The number of nights spent by Estonian tourists could grow less quickly in 2017 as the Estonians' purchasing power is forecast to grow more slowly than in 2016.



Net occupancy rates of bedrooms and bed-places in hotels, 2015



Source: Eurostat

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Tourism: can the success be sustained?

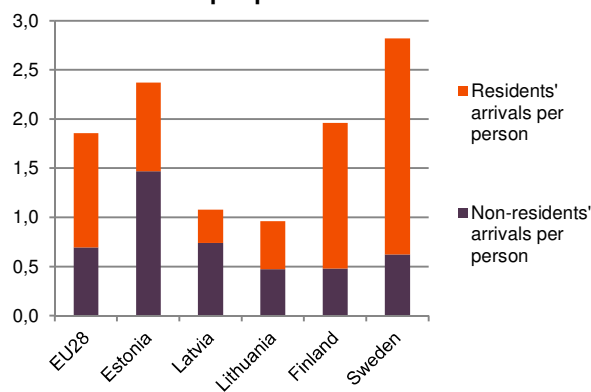
Estonia has been rather successful in attracting tourists so far, although the selling argument of lower prices is decreasing, partly due to higher VAT and excise taxes. The recovery of the Finnish and Russian economies, and the EU presidency should, however, support the continued inflow of tourists in 2017.

Estonia has been an attractive tourist destination

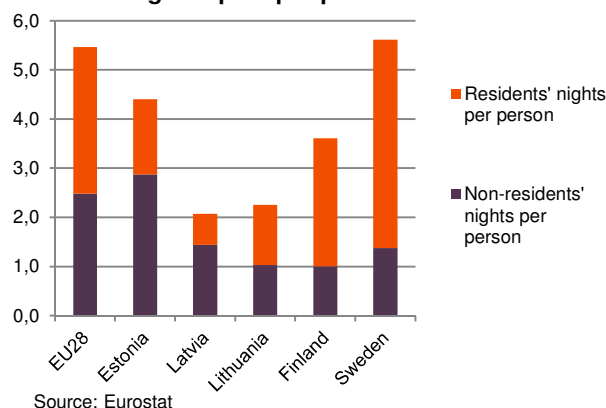
The share of tourism in Estonia's economy is somewhere around 5% (4.6% of Estonia's GDP, according to the OECD¹). Accommodation and food services amounted to 1.8% of the value added in Estonia in 2015. Export revenues from tourism amount to approximately EUR 1.7 billion annually, equivalent to 10% of total exports of goods and services in 2015. Foreign tourists spent an estimated EUR 390 million in Estonia in the second quarter of 2016, which was 5% more than in the second quarter of 2015.

Estonia has been rather successful in attracting tourists. When we look at the number of tourists per person (i.e., per population in a respective country), we see that, in Estonia, the number of non-residents' arrivals (or nights spent) at tourist accommodation establishments is higher than in Latvia, Lithuania, Finland, or Sweden, or the EU average. Local tourism seems to be more active in Estonia than in other Baltic countries, but more sluggish than in Finland or Sweden, or the EU average, where higher living standards enable higher expenditure on leisure and entertainment, and longer distances mean greater need for accommodation services. Also, when we look at net occupancy rates in hotels in Estonia, we see that Estonia's net occupancy rates are above the European average (see the graph on the front page).

Tourists' arrivals per person in 2015



Tourists' nights spent per person in 2015



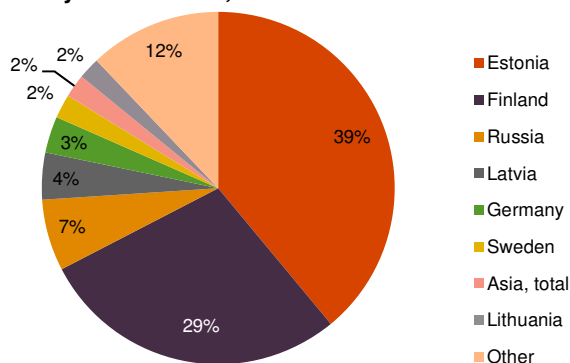
The majority of foreign tourists are visitors from nearby countries making short trips to Estonia (the average length of an overnight visit was four days in the second quarter of 2016; 48% of all foreign visits were same-day trips in the second quarter). One of the reasons for such a short length of stay is that Estonia lacks attractions and activities or information on them that would motivate tourists to stay longer. At the same time, it is a positive that the portfolio of foreign tourists is becoming more broad based as the number of tourists coming from Asian countries (Japan, China, and South Korea) continues to increase.

Growth despite fewer visitors from two major markets

The number of accommodated tourists from Russia decreased in 2014 and 2015, and the number of Finnish tourists declined a bit in 2015. At the same time, the number of domestic tourists has increased substantially in recent years. Around 40% of the clients in accommodation establishments in Estonia are Estonians. During the first six months of 2016, the number of tourists from Russia stabilised, while the number of Finnish tourists started to grow again. The number of Russian tourists accommodated in Latvia or Lithuania also stabilised in the first half of 2016, after a drop of 32-33% in 2015 compared with 2014.

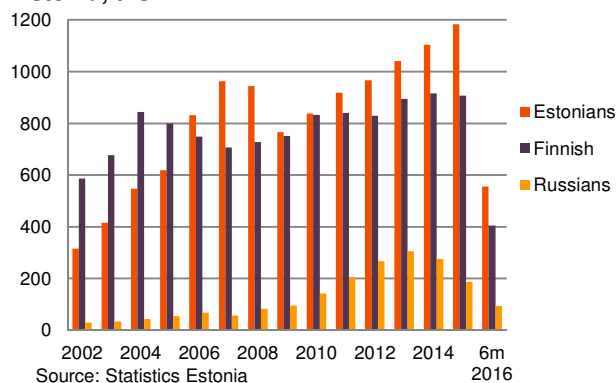
¹ *OECD Tourism Trends and Policies 2016*.

Accommodated tourists in Estonia by country of residence, 6 months of 2016



Source: Statistics Estonia

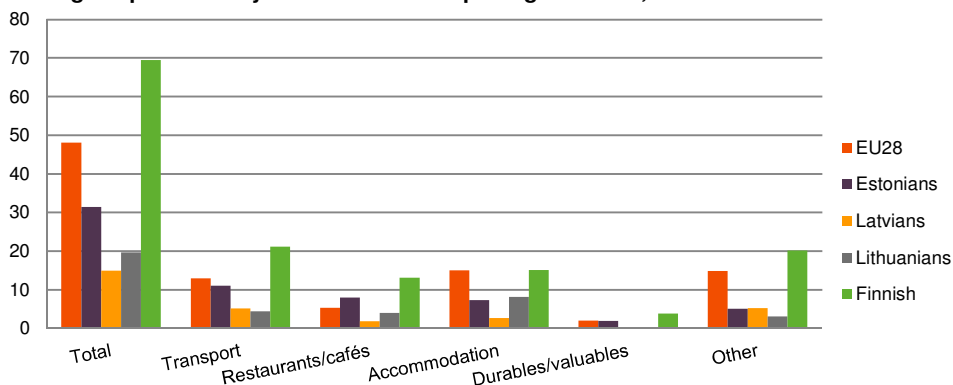
Number of accommodated tourists in Estonia, ths



Source: Statistics Estonia

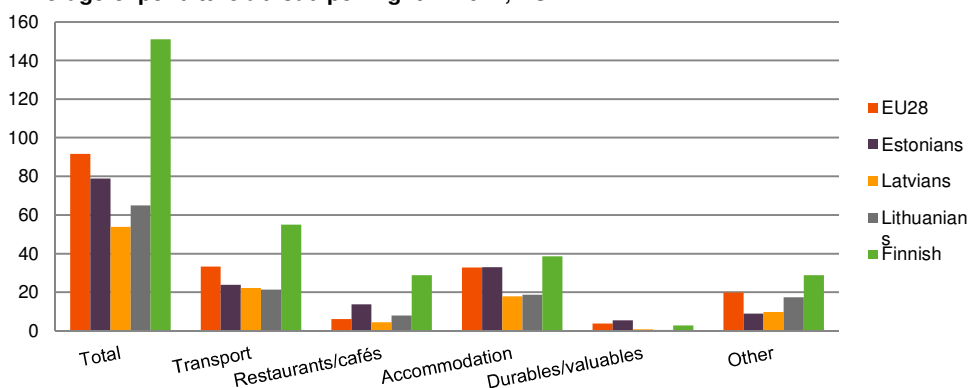
Estonians travelling within Estonia mostly spend money on transport (EUR 11 per person per night), eating out (EUR 8 per person per night), and accommodation (EUR 7 per night per person), EUR 31 in total (2014 data).² Latvians and Lithuanians spend less, on average, both in their respective countries and also abroad, as the price and wage levels in these countries are also lower. Finnish people, on the other hand, spend a lot more than the Europeans, on average, whether travelling in Finland or in a foreign country. The Finnish, while abroad, spent EUR 151 per person per night in 2014, out of which EUR 55 was spent on transport, EUR 29 on food, and EUR 38 on accommodation.

Average expenditure by domestic tourists per night in 2014, EUR



Source: Eurostat

Average expenditure abroad per night in 2014, EUR



Source: Eurostat

The smaller number of tourists from Russia and Finland affected the tourism industry's performance. In 2015, sales increased only by 2%, while costs grew by 7% (including personnel costs by 10%); as a result, the total profit was 40% lower than in 2014. During the first six months of 2016, the industry's economic indicators improved: turnover was 17%, and profits 10%, higher than in the first half of 2015.

² Expenditure made by a visitor on an overnight trip. Includes visiting friends or relatives where accommodation has been provided for free.

Change in the turnover of accommodation and food services in Estonia



Source: Statistics Estonia

Profitability of accommodation and food services in Estonia



Source: Statistics Estonia

Travel economy transformed by technology

Tourism services have traditionally been provided by businesses such as hotels, taxis, or tour operators. A growing number of individuals have begun to propose sharing temporarily with tourists what they own (e.g., their house or car) or what they do (e.g., meals or excursions). This type of sharing is referred to as the “sharing economy”. The sharing economy has had a positive impact on tourism, as well as a negative one. Its advocates think that it provides easy access to a wide range of services that are often of higher quality and more affordable than those provided by traditional business counterparts. Critics, on the other hand, claim that the sharing economy provides unfair competition, reduces job security, avoids taxes, and poses a threat to safety, health, and disability compliance standards.³

In Tallinn, accommodation provider Airbnb has over 1,000 rentals with an average price of EUR 69 per night (September 2016 data). About 90% of the hosts rent an entire place, while 10% rent a room.⁴ In June 2016, Tallinn had 7,050 rooms available in total in different accommodation establishments (hotels, guesthouses, cottages, flats, and bed-and-breakfasts), with an average cost of one guest night⁵ of EUR 44 (latest data available).⁶ When comparing price/service levels, Airbnb is competing mostly with three-star hotels.

Challenges and opportunities in 2017

Next year will bring some challenges and opportunities for Estonia’s tourism sector. In 2017, Estonia will raise the VAT on accommodation services from 9% to 14%. This will probably increase the average price of a hotel room and might decrease the attractiveness of Estonia for budget-conscious travellers. In areas with higher competition, average prices of hotel rooms could be lifted less than the 5-percentage-point-difference in VAT rates; therefore, the profitability of accommodation service providers could decline in these regions. Significant yearly increases in excise taxes on tobacco and alcohol will also reduce the price difference of these products between Estonia and Finland.

Overall, the general price level of goods and services in Estonia remains substantially lower than that of Germany, Finland, or Sweden, but the price advantage that Estonia has enjoyed has narrowed over time. Also, in the hotel and restaurant sector, the price difference with respect to Western Europe is narrowing. The price difference with respect to German hotels and restaurants was only 24% in 2015.

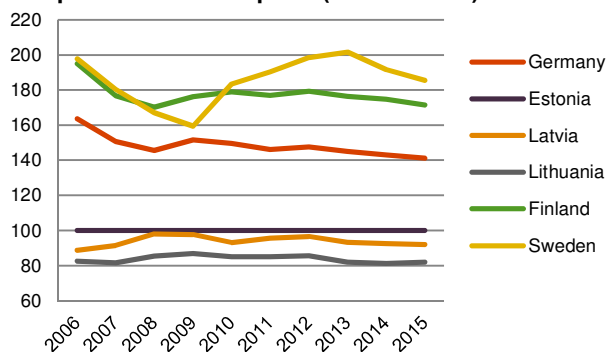
³ [The sharing economy and tourism - European Parliament - Europa.eu](http://www.european-council.europa.eu/media/en/press-summaries/Pages/14111.aspx)

⁴ <https://www.airdna.co/city/ee/tallinn>

⁵ Average cost of a guest night – the average cost of one guest night in an accommodation establishment, which includes the VAT and the cost of breakfast if it is sold with accommodation services.

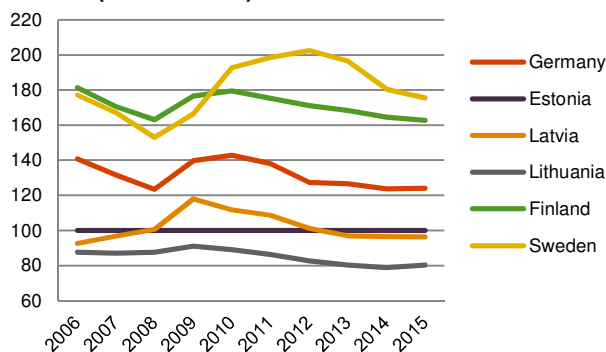
⁶ Tourism accommodation is divided into two main groups: collective accommodation establishments (serve tourists as business entities) and private tourist accommodation. The accommodation statistics take into account only the data of collective accommodation. Data source: [TR122: Accommodation by county \(months\)](#)

Average price level of goods and services for personal consumption (Estonia=100)



Source: Eurostat

Average price level of restaurants and hotels (Estonia=100)



Source: Eurostat

Looking ahead, the worst should be behind in both the Russian and the Finnish economy; therefore, the demand for tourism services in these two countries should increase. We also expect the Russian rouble to strengthen against the euro in the coming years (around 30% by the end of 2018, according to Swedbank's August Outlook), which will lift Russians' purchasing power in the euro area.

The second half of 2017 will bring to Estonia the EU presidency. This will entail 20 high-level meetings or conferences and around 200 other events. The budget for organising these events has been estimated at EUR 15 million (2% of Estonia's accommodation and food service companies' turnover in 2015). The number of Estonian tourists, on the other hand, could grow less quickly in 2017-2018 as the Estonians' purchasing power is forecast to grow more slowly going forward. This is a result not only of slower growth of wages, but also higher inflation.

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