

# THE FUTURE OF TOURISM IN THE EUROPEAN MONETARY UNION

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### Introduction

Tourism is one of the largest and most dynamic industries of the world, with significant multiplier effects on economic activity. It is estimated that over the next ten to fifteen years demand in the sector could double globally and increase by around 30% in Europe (Torres Marques 1998). Recent worldwide trends seem to justify this estimation, particularly the continuous ageing of the population of the developed countries, the gradual reduction in working hours and the consequent increase in leisure time or the expected improvement in the quality of life of potential tourists all over the world.

Most recent advances in the European integration process - the creation of the internal market, the Schengen agreement, and the development of the European Monetary Union and its currency, the Euro - are considered to contribute to the development of European tourism by providing competitive advantages to the area.

The introduction of the Euro and the implementation of a single European monetary policy are one of the greatest challenges in European history. By introducing the Euro, the European Union will become the world's largest monetary union with a GDP of app. 8,440 billion USD (Musyl 1998). From a political point of view this will be a vigorous support for European integration, economically, it will further strengthen and develop the single European market.

The new single currency is not only another means of payment, but an instrument of the European identity, a contributor to the positioning of "Destination Europe" in global tourism (Leu 1998). In addition, however, the elimination of currency conversion costs, bank commissions and other international financial obstacles will most probably stimulate the mobility of persons, goods and capital within the EMU, thus serving as well as an incentive for tourism development.

### Consequences of the introduction of the Euro

The first attempt to design a European Monetary Union for the EU member countries was made in the late 1960s by the Werner Group, but without success. In the late 1980s, the Delors Group attempted again to devise a model for the EMU. The Delors report identified three main factors for the EMU: the full convertibility of the participant countries' currencies, the integration of the financial markets (i.e. the

elimination of any limitation on capital movements) and the permanent and irrevocable determination of the exchange rates between the Euro and national currencies of the participant countries.

The introduction of the Euro on January 1, 1999 indicates the last stage in the completion of European Monetary Union and the definitive transfer of monetary responsibilities from national to Community level in the participating countries. From this date onwards, there is only one set of policies for EMU member states, with certain instruments of economic and financial policy no longer available for national application. This implies that it is not possible any more to set monetary conditions according to national requirements and the participating countries have lost their ability to adjust exchange rates in accordance with national developments (Weber 1998).

The Euro does not appear in cash form for an additional period of three years, due to the time needed to produce the necessary quantity of notes and coins. During this time, there is no restriction on the use of the Euro, but there is equally no compulsion to use it.

Given that a common currency requires a common monetary and exchange rate policy, only those countries have been able to join the EMU which have met the Maastricht Treaty's convergence criteria concerning inflation performance, exchange rate stability, long term interest rates, fiscal situation and the adaptation of national law.

As a the creation and the introduction of the Euro as a supranational currency is an almost unique event in world history, it is rather difficult to forecast all its potential consequences. However, the Euro will obviously have a significant impact on monetary issues, especially on the finance industry and on financial markets, that will most likely become larger, more efficient and more transparent. Increased transparency within the Euro zone will also strengthen competition. As these changes will become most visible in international activities, they are particularly relevant for tourism.

### **The importance of the Euro zone in European and world tourism**

If the member states of the Euro zone (i.e. Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) are considered as one nation, they constitute the largest destination in the world in all aspects of tourism, according to WTO research (Raffling 1998). Compared to its nearest competitor, the USA, the new Euro zone will most probably prove to be superior in terms of tourist arrivals, tourism receipts and outbound trips. Table 1 presents the major economic and tourism indicators of the Euro zone and those of the USA. As the figures show, the Euro zone (which does not cover yet the whole of the European Union, let alone the whole of Europe) is rather similar to the USA in all characteristics but one: international tourist arrivals differ significantly, due to the fact the while the USA is a single country, the Euro zone consists of 11 countries in small geographical area with many international border crossings.

**Table 1 - Indicators of Euro zone and USA (1996)**

	<b>Euro zone</b>	<b>USA</b>
<b>Population</b>	288 million	255 million
<b>Gross National Product</b>	6.8 trillion USD	7.5 trillion USD

<b>Tourist Receipts</b> (% of world total)	72 billion USD (17%)	64 billion USD (16%)
<b>Tourist Spending</b> (% of world total)	59 billion USD (15.5%)	52 billion USD (13.6%)
<b>Tourist Arrivals</b> (% of world total)	84 million (14%)	46 million (7.7%)
<b>Tourism Balance</b>	13 million USD	12 million USD
<b>Outbound trips</b> (% of population)	72 million (24%)	66 million (25.8%)

Source: WTO 1996 & Bergstein 1997 in Raffling 1998, Shackelford 1998

Europe is the most attractive tourist destination accounting for approximately 60% of the world market. However, the EU's market share in international arrivals has been decreasing over the last decade, despite that in 1997, European countries experienced a 3.2 per cent growth in international arrivals reaching almost 363 million (WTO 1998). The impacts of the introduction of the Euro, particularly the simplicity of the financial transactions, the increased transparency of the tourist market, the consequent overall improvement in the price-value ratio of goods and services, together with the increased competition should provide considerable benefits both for the tourists and for the tourist industry, thus should make Europe as a destination more attractive for visitors and investors alike.

### **Main benefits of the Euro to tourists**

Tourists are among the first to use and disseminate the Euro and experience the direct advantages of the single European currency, with the disappearance of commission charges and of the discrepancy between buying and selling rates (this is quite a significant benefit, considering that a tourist's cash can now lose up to two-thirds of its value while travelling all around Europe simply through currency exchange transactions, without making one single purchase) (Torres Marques 1998). Savings made on transaction costs lead to higher travel budgets, which, at least partly, will hopefully be spent in the tourism sector.

Tourists are also able to use a far more stable currency. Though there is no guarantee available for the stability of the Euro, we might believe that the price stability can be maintained as the ECU was quite stable during the last decade and the average inflation rate in the EU was only 2% in 1997 (Raffling, 1997).

The greater price transparency which results from the existence of a single supranational currency also makes travelling more comfortable. Price comparisons become easier and after the introduction of Euro notes and coins, tourists will no longer have to deal with the problem of leftover cash. Price transparency may also help image correction (perceptions of price-value ratios in different countries do not always correspond to the facts).

### **Impacts on the tourism sector**

The increased transparency highlights the differences in indirect taxation rates (VAT in particular) which affect the tourism sector and shall lead to a better harmonisation of the European fiscal system. Measures should be taken to harmonise taxation in order not to distort competition (special emphasis should be made on the simplification of VAT regulations for travel agencies which are rather complex at the moment).

Since prices are much easier comparable in one single currency, the Euro results in more competitive travel in tourism markets, with obvious consequences for the price and quality of the tourism services. For overseas markets, the Euro will make Europe an easier destination and strengthen its role as an "umbrella" for promotion and marketing activities, maintaining the tendency that tourists from these areas come mainly to Europe and not to the individual countries. However, the fact that not all EU member states are also members of the Euro zone may create confusion, so the European tourism sector must put special emphasis on the explanation of the existing differences.

Tourism operators can definitely benefit of the elimination of risks related to the fluctuation of exchange rates within the Euro zone which makes planning and pricing simpler and easier and contributes to longer-term thinking. Consequently, monetary reserves that companies are obliged to maintain may decrease, improving cash flows and increasing flexibility in decision-making. As profit margins are typically rather low in the travel intermediary industry, tour operators welcome the reduction of costs resulting from the reduced need to hedge the purchase of foreign currencies.

### **Costs and threats**

A principal concern of European tour operators is that those EMU member states (e.g. Spain or Portugal) that heavily depend on tourism may become less competitive compared to nearby non-EU destinations (like Slovenia or Turkey) (Van Wallegghem 1998). Especially in the Mediterranean area, inclusive tours and package tourism in general account for a relatively high proportion of the holiday market. Package tourism is extremely price sensitive and small changes in prices produce large fluctuation in consumer preferences. Prior the introduction of the Euro, countries were able to gain competitive advantage and influence their tourism flows by controlling their exchange rates, but this is no longer possible within the EMU.

Since consumers will need to purchase significantly lower amount of foreign currency for their trips, the revenue for travel agencies who currently benefit from foreign exchange transactions will also decrease. As travel agencies are already under threat from the growing trend of direct selling, this loss of revenue could seriously jeopardise their financial position (Van Wallegghem 1998).

As the EU's share of the global tourism market has been decreasing for years anyway, tourism companies have tried to respond to this pressure by attempting to reduce costs. In the total costs of the industry, staff costs represent a major element, so decreasing competitiveness would most likely lead to increasing unemployment.

An other problematic issue is the statistical measurement within the EMU. Traditionally cash flows have provided the main source for estimating the volume of tourism flows. Now, after the introduction of the Euro, satellite accounting must be developed and used to replace the so-called central bank method.

The 3-year-long dual money circulation period, considered to be too long by some members of the tourism sector, results in high and unnecessary costs (due e.g. to double pricing in catalogues or price lists, data processing adaptation, other necessary technical adjustment or staff training).

### **Conclusions**

The development of the European Monetary Union certainly has significant impacts of various scope and range on European tourism. Expert expectations show that the Euro will become a strong international currency used in foreign trade, currency reserves, investment and, last but not least, tourism.

Impacts of the Euro might be categorised as macroeconomic and structural impacts (Keller 1998). Macroeconomic impacts include the reinforcement of the European economic and political integration, growth within the Euro zone - which can be attributed to the expected low level of interest rates which, in turn, enables less expensive investment, and the resulting regeneration of economic and tourism infrastructure and superstructure improves competitiveness and stimulates general economic growth. This acceleration of growth will also benefit non-EU member European countries that are able to be competitive.

Among the structural effects of the Euro, transparency is one of the most significant. Tourism services are increasingly price sensitive (as they satisfy non-basic needs of people and they can usually very easily be replaced by other similar services). Prices become even more competitive within the EMU and certain countries - most likely particularly the Mediterranean region - will face image and price level problems. Innovative, low-priced high quality products and services continue to be the key to success in all market segments.

Transaction costs due to exchange risks and exchange commissions will disappear for EMU member states which is a very significant impact in a sector where profit margins are often very low. However, transition costs present a threat for especially the small and medium-sized tourist businesses, for exactly the same reason.

EMU member states should be committed to facilitate the process of structural adaptation of economic activities depending on tourism by encouraging and supporting a rejuvenation of the tourist supply and promoting Europe as one single destination with a great variety of unique products and services.

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