Egypt: country report

Touristically speaking (and politically of course), Egypt is not in the best of health. But is there light at the end of the tunnel? **Nada Alameddine**, regional director of sales and marketing at **Hodema consulting services** offers an insight

Egypt is not really at its best nowadays. Once one of the top destinations for tourists from all over the globe, and the largest attraction in North Africa, the country has been deeply impacted by the political and economic turmoil that has been disrupting the region since 2011. Deterred by the clashes and demonstrations that led to hundreds of deaths and injuries, the ousting of President Mubarak, then subsequently the ousting of President Morsi, foreign visitors have been giving the cold shoulder to the 'Land of the Nile', or Ard El Nil, as it is poetically nicknamed. And they have been comforted in their decision by Western countries themselves: The United States and most European countries, which used to provide the largest number of visitors each year, have been advising their citizens against traveling to Egypt since 2011. The recent change of leader may not reassure holiday-makers in the near future.

An economy in crisis

The concerning health of the tourism sector, which traditionally contributed to around 10 percent of the GDP, highlights the bad shape of the country's economy in its entirety. Egypt's economy has been growing at its slowest pace in the last two decades since the toppling of President Mubarak, with growth remaining under two percent in the last year. A low point that prompted the United Arab Emirates, Saudi Arabia and Kuwait to lend a helping hand, announcing more than USD12 billion dollars in aid. The GDP is not the only indicator to be impacted: foreign direct investments (FDI), usually quite high, plummeted after the uprising. The trend, though, seems reassuring of late, with USD 2.8 billion registered in the first half of the 2013/2014 fiscal year according to the General Authority for Investment and Free Zones (GAFI). This could be the sign of a positive economic outlook, although the situation remains very fragile, with GDP increase previsions down from 3.5 percent to 2.5 percent for this year.

A tourism sector in distress

The tourism industry plays a vital role in Egypt's economy but last year it only contributed 3.2 percent to the GDP while the industry employed one in every seven Egyptians; 12.6 percent of the labor force, with four million direct and indirect jobs.

For years it has developed a varied hospitality offer that has been attracting millions of visitors, mostly from Europe (accounting for 73 percent), thanks to lenient visa regulations. In 2013, according to the General Authority for Investment and Free Zones (GAFI), amongst the Europeans, Russian tourists represented the largest share of arrivals from a single country at 19.7 percent, followed by the United Kingdom and Germany at around 8.7 percent.

Its well-preserved historical heritage, as well as its mild weather and beautiful seashore and Nile banks draw many different types of tourists - from party lovers to archeology enthusiasts.

This activity reached a record high of nearly 15 million visitors in 2010. The figure dropped to 9 million in 2011 as Egyptians toppled Hosni Mubarak, resulting in a sharp decline of 42 percent in revenues for the sector, according to HVS. Cairo was the first destination to be hit: as the epicenter of the turmoil, it lost nearly 50 percent of its occupancy between

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2010 and 2011, according to HVS. The declining occupancy rate put downward pressure on the aggregate 'revenue per available room' (RevPAR) performance which fell at 44 percent in 2011, according to Collier International. Some places ended up even worse off than Cairo, whose occupancy rate in early 2013 was estimated at 15 percent by the Egyptian Tourism Federation: Luxor, the popular site of the Valley of the Kings, saw its occupancy rates drop below five percent in 2013.

The sector picked up in 2012, after the election of Mohamed Morsi, to reach 11.5 million visitors: it earned Egypt USD 9.75 million dollars in the 2012-2013 financial year. Only corporate tourism remained bleak but the number of visitors shrank again to 9.5 million last year after attacks on touristic destinations. The last one, which targeted a bus filled with Korean tourists in the Sinai region last February, was a huge blow to the sector: official data shows that tourism revenue dropped 43 percent in the Q1 of 2014 compared to the same period last year, adding to 2013's 41 percent decrease. Occupancy figures accordingly showed a 43.6 percent decline. With the political crisis, businessmen and tourists had stopped visiting Cairo and most landmark historical sites, but many beach-goers had kept the resort activity afloat, filling up Red Sea hotels for all-inclusive stays. Sharm el-Sheikh experienced a 27.1 percent increase in occupancy and 20.8 percent increase in RevPAR in 2012. Alexandria, another prime leisure destination also did well, with occupancy levels increasing by 17.9 percent and RevPAR rates rising by 20.5 percent. But security threats in touristic hubs, followed by travel warnings from most Western countries, have now also hit the resorts.

This loss of tourism is not only hitting the country in a short-term perspective anymore. It could also have a lasting negative impact on the whole economy. Many employees forsake tourism to hunt for job s outside the industry, and students abandon a career track that used to be considered as the country's most successful. The crisis also has an influence on various other areas, such as car rentals, air transportation, F&B and wellness. Today prices are heavily discounted to try to encourage visitors back, a positioning that might harm the industry in the mid-term as Egypt is already considered a cheap holiday destination, especially around the Red Sea.

A three-year action plan

Lately authorities have started taking matters into their own hands: in early May 2014 the Minister of Tourism Hisham Zaazou announced a three-year plan to stem the downward tide. The goal is to attract more than 25 million tourists by 2020 and generate revenues up to USD 25 billion dollars within the next six years. An ambitious target, since it would double 2010's peak of USD 12.5 billion.

The plan consists of a major marketing campaign targeting new regions with a large touristic demand, such as India, China and Latin America and less-known areas such as Eastern Europe. The Ministry also tries to woo Gulf visitors, with a new online video aptly called "We missed you". Partnerships are being discussed with airlines such as Emirates and Etihad Airways and direct flights from Saudi Arabia and Kuwait to Sharm el-Sheikh and Hurghada have been announced. Arab tourists traditionally make up a fifth of Egypt's tourists. The Ministry aims at an increase of 20 percent of Gulf visitors.

Though leisure tourism remains the largest market segment, business and conference tourism is on the rise, as is health tourism, with Cairo as an ascendant healthcare hub within the region.

Authorities are also trying to cut costs wherever they can. Negotiations are underway with the industry to prevent double taxation on airlines and tourist agencies. But the plan shows its limits: the government raised the visa entrance fee from USD 15 to USD 25 on May 1.

On the ground, five plots of land on the Red Sea coast, belonging to the state, were sold earlier this year to support local and international investment. New touristic structures are planned for a total of USD 71 million.

Egypt's tourism industry has been threatened by instability in the past, and has always bounced back. So, even though it may be some time before Egypt regains its place in the sun, visitors may be back in even bigger numbers.

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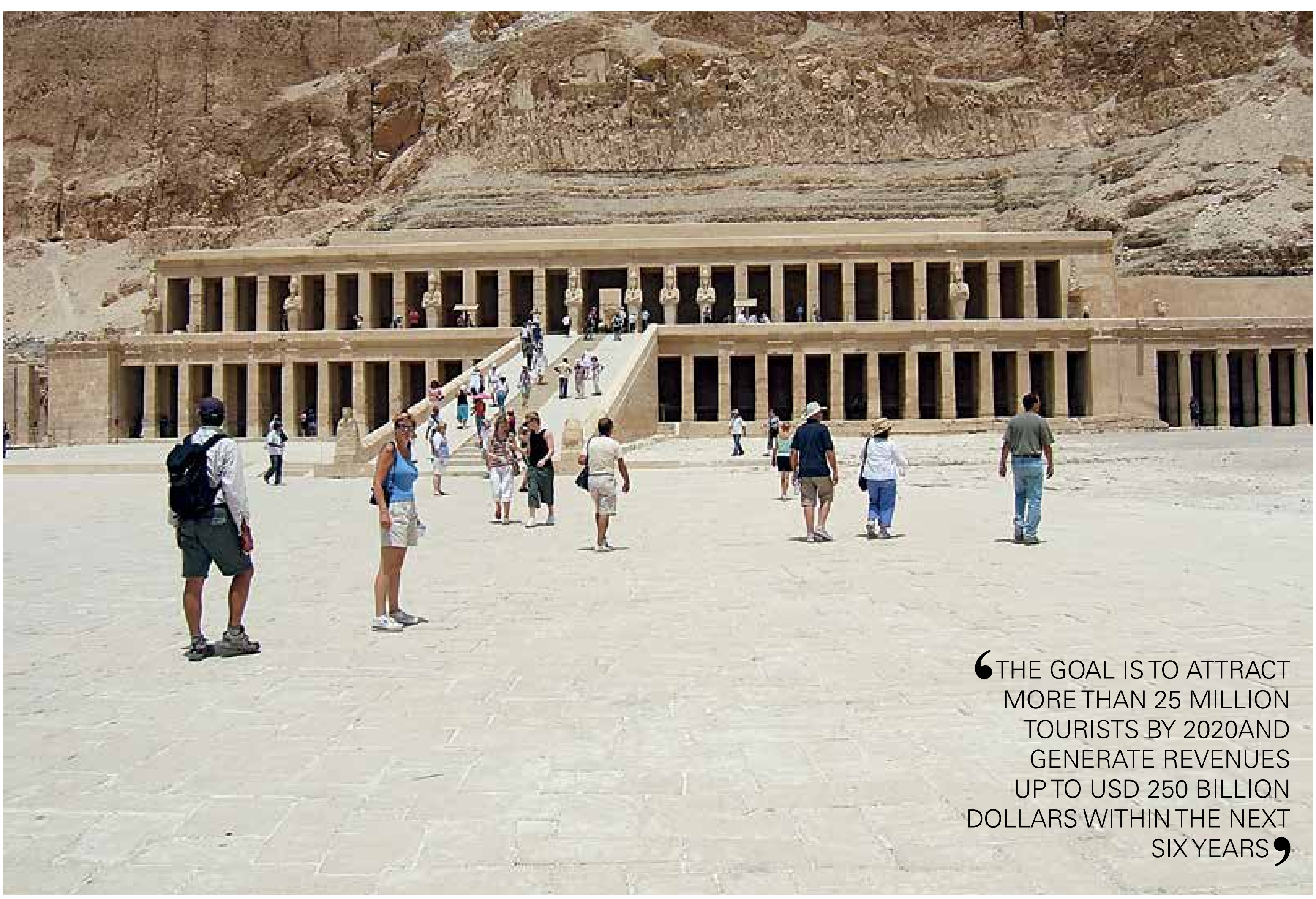

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