

# Romanian Tourism Hit by the Crisis

The financial crisis triggers a decline in the Romanian travel and tourism industry. After strong economic growth of 7% in 2008, 2009 brought a decline of 7% in GDP; this further triggered a 6% decrease in average net incomes and the doubling of the unemployment rate, thus reaching 8%.



Because more Romanians were concerned with their standard of living, they began to plan cheaper and shorter holidays. They chose the closest locations as their destinations, which they could reach using their own vehicles, and opted for shorter stays; most frequently many settled for weekend escapes.

All these factors led to a decline in demand for travel and tourism. As a consequence, many markets felt the impact, leading to a chain reaction, and most players registered losses, but not all. Romanian society continued to polarise at an accelerated pace due to the crisis.

In 2009, people who could afford to pay for a vacation similar to that of the previous year managed to get a better quality of service for either domestic destinations or destinations abroad. In brief, 2009 brought new elements to the Romanian travel and tourism industry, such as discounts, early booking, customised services and client price negotiation.

## Low Budget Accommodation Flourishing

Almost 90% of the assets in Romanian banks come from abroad; also, 80% of total GDP is brought in

by only 4% of the companies. As a consequence, decreasing GDP can be said to be a result of the global recession.

This is also the case with regard to the Romanian travel and tourism industry. As a result of the financial difficulties of global players, many developments were halted, and this had a significant impact on business tourism. The occupancy rate of luxury hotels in Bucharest registered a dramatic decline. In the context of the recession, hotels reported drastic reductions in turnover.

As for Romanians, 78% of them decided not to go on vacation in 2009. The ones who did so mostly headed for domestic destinations, as this seemed to be the best low budget solution. As a result, low budget accommodation such as campsites and some guesthouses (mostly in rural areas), hostels and motels flourished in the recession.

### **Low Cost Airlines Popular**

Due to the recession, tourists also opted for cheaper modes of transport. Airline companies registered decreasing demand for both classes - business and economic. Overall, the load factor dropped dramatically, and some scheduled and charter flights were cancelled. Some companies considered using smaller airports to reduce costs, but this triggered changes in the aircraft fleet to maintain profitability.

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Thinking of ways to improve profits in these difficult times, the blue flag operator Tarom decided to join the SkyTeam group, with Air France-KLM. Lufthansa, another important service provider, after taking over Austrian Airline's market share, became a member of the rival group Star Alliance.

Travellers now more often choose cheap flights, as low cost carriers offer very attractive prices and large discounts. However, there is also a lot of competition in this segment. Low cost carriers registered a significant increase in the number of passengers, but did not always profit from this. Delays were more frequent, and there were major changes; for instance the first low cost carrier, founded in 2001 in Romania, went bankrupt.

### **Travel Retail - Highly Price-sensitive**

Dynamism is currently best reflected in the evolution of travel agencies, which are faced on the one hand with declining demand from tourists, and on the other hand with a great offer of tourist services. Most travel agencies registered falling turnover, but some stated that their figures were increasing.

Looking closer into this discrepancy, it can be seen that this is based on the target groups. Generally, the most stable companies are those with a balanced offer of services. The companies which are facing more difficulties are those which mostly count on business tourism and on airline ticket commission. These are the large, significant market players.

Small companies are also experiencing difficulties, being highly dependent on hotel prices. Overall, travel retail shows great price-sensitivity to upstream price variations. This is because the conditions for success have changed in crisis times; whereas before it was important for a company to have many connections, now the most important thing is having the lowest commission.

In brief, the solution for 2009 seems to be adapting, and having client customisation skills, whilst maintaining profitability.



	<b>2 0 0 9</b>
<b>Domestic Business Tourism–'000 trips</b>	<b>839.7</b>
<b>Domestic Leisure Tourism–'000 trips</b>	<b>4042.2</b>
<b>Business Arrivals–'000 people</b>	<b>2928.6</b>
<b>Leisure Arrivals–'000 people</b>	<b>5334.3</b>
<b>Business Departures–'000 people</b>	<b>3133.3</b>
<b>Leisure Departures–'000 people</b>	<b>10241.3</b>

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