The Hospitality Sector in Europe

An assessment of the **economic contribution** of the hospitality sector across 31 countries

September 2013

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Building a better working world

The Brewers of Europe

Hotrec Hospitality Europe

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Building a better working world

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Hospitality Europe

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Foreword
by the President of The Brewers of Europe

The Brewers of Europe welcomes this study on the economic contribution of the hospitality industry. The overall report finding that a thriving European hospitality industry is essential for European jobs and growth will not come as a surprise to Europe's brewers as bars, pubs, cafes and restaurants are the main routes to market for our product: beer.

It is important that decision-makers recognise the major contribution made by the European hospitality sector to the EU economy and society and that its good health is essential for EU job creation and growth. The prosperity of other European business sectors, including agriculture, tourism and brewing is also at stake here. This is why a policy framework that truly values the hospitality sector is needed.

While the report highlights some impressive figures around economic contribution, it also highlights how the sector supports a flexible labour market, providing work for young and first time labour market entrants and those returning to the job market. With youth unemployment now firmly on the agendas of Europe's political leaders, the potential for the hospitality sector to continue to provide jobs should not be overlooked.

At a time when growth appears on the agenda of every EU summit, it is important not to take growth in the hospitality sector for granted. This is why we hope that policymakers will carefully review not only the headline numbers, but also the underlying trends and policy drivers that support growth and employment in this sector. Concretely, this means looking at the impact of prices, employment and material costs, and also carefully weighing up the different impacts of all policy options to ensure optimum overall contributions to the wider economy and society.

We believe that the hospitality sector is not only an important economic contributor, but also a major social and cultural contributor. Hospitality is at the heart of European society, where bars, cafés and restaurants are places to meet, have fun and get inspired. Put simply, for locals and tourists alike, the hospitality sector enhances our enjoyment of life.

Europe's brewers are thus committed to working hand-in-hand with the hospitality sector, the whole beer value chain and political stakeholders to promote the hospitality sector and help it to realise the potential it has to combat the big economic and social issues Europe faces today.

Yours sincerely,

Demetrio Carceller

Demetrio Carceller
President
The Brewers of Europe

Foreword by the President of HOTREC

Foreword
by the President of HOTREC

HOTREC, the trade association for hotels, restaurants and cafés in Europe, uniting 44 national hospitality associations from 27 countries, cooperated with pleasure with The Brewers of Europe to support this study on the hospitality industry, an industry which, together with tourism, is one of the largest in Europe.

This study clearly demonstrates that, within a supportive legal and fiscal environment, the hospitality industry can be a key driver for job creation in Europe, even in times of crisis. Over the ten years since the start of the millennium the number of jobs overall in the EU economy grew by just 7.1% whilst the hospitality sector created 29% more jobs in comparison to the year 2000. These numbers speak for themselves.

Hospitality is one of the most important gateways to the labour market, which is crucial in the current times of high unemployment, especially amongst young people in Europe.
Austerity and tax increases are clearly counterproductive for job creation and may lead in the longer term to a loss in consumer demand, which is very closely tied to jobs in this highly labour intensive sector.

Taking the right political decisions can both secure the 10 million jobs directly employed in hospitality across Europe and even facilitate further job creation, in a similar way to what has been experienced over the last decade. This is not only crucial for the people employed directly by the hospitality sector but also for the further 6.4 million people whose jobs rely on the good functioning of our sector.

As stated in this independent study, hospitality businesses and investments represent a highly valuable multiplying factor in the whole of the European economy. One Euro spent in hospitality results in a total of 2.16 Euros invested in the whole European economy. Such a high return on investment should be recognised, to the benefit of the whole of Europe.
HOTREC sincerely hopes that this report will be a valuable tool for all policy makers who need to take decisions affecting the hospitality industry.

Kent Nyström
President of HOTREC

Yours sincerely,

Kent Nyström

Executive Summary

Executive summary

The nature and performance of the European hospitality sector

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**3.2%**
Hospitality sector average annual growth rate, 2000 - 2010 (nominal)	**3.3%**
Average annual employment growth rate, 2000-2010	**0.7%**
Hospitality sector average annual employment growth rate, 2000 - 2010	**2.9%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€1.0tn** (8.1% of the total)
GDP	**€460bn** (3.7% of the total)
Employment	**16.6m** (7.8% of the total)

Total tax contribution of hospitality €125.6bn

Excise	**€10.5bn** (8.3% of the total)
VAT	**€69.9bn** (55.5% of the total)
Employment	**€45.2bn** (36.1% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.16** is spent in the wider economy.

- The hospitality sector makes a major contribution to the European economy.
- In 2010, the hospitality sector supported approximately 16.6m jobs, or one out of every 13 jobs in Europe. The sector contributed almost €126bn to government treasuries in excise duties, Value Added Tax (VAT) and employment and social security taxes.
- The sector is very responsive to economic conditions, supporting job creation and economic growth in the good times, but also vulnerable to revenue raising policy measures in a downturn.
- With €1.16 additional demand generated in the wider economy for every €1 spent in the sector, supportive policy measures are likely to result in positive outcomes for the economy as a whole.
- These are likely to support not only economic, but social objectives, providing work for young and first time labour market entrants and those returning to the job market.
- Measures adopted in times of austerity, which increase tax rates at a time when disposable incomes are falling, are likely to undermine the ability of the sector to generate growth. The short term response to this is likely to be cost cutting measures, and later, a loss in permanent capacity.
- The underlying drivers of this performance are examined in the analysis in this report, allowing a number of different policy tools to be identified, that influence growth and job creation:

Driver	Policy levers
Prices	Standard and reduced rates of Value Added Tax Hospitality taxes, such as “Bed Taxes”
Employment costs	Personal income taxes Social security costs/regulation
Material costs	Excise duties
Property costs	Property taxes

The Hospitality Sector in 2010: national summary of statistics

Analysis of the economic impact of the sector on the European economy follows in Section 1, with detailed reports on each of the 31 countries set out in Section 2. Below is a 'snap-shot' of the sector's key contributions in 2010.

Country	Sector contribution to GDP (1)	Sector contribution to employment (2)	Multiplier (3)	Beer sold in the on-trade (4)
Austria	5.5%	10.7%	€0.95	33%
Belgium	2.6%	5.9%	€1.08	48%
Bulgaria	4.2%	8.2%	€1.57	26%
Croatia	5.1%	12.7%	€1.12	50%
Cyprus	10.4%	30.9%	€0.94	48%
Czech Republic	3.1%	6.4%	€1.57	49%
Denmark	2.1%	9.1%	€1.18	23%
Estonia	2.9%	5.4%	€1.17	9%
Finland	2.8%	4.8%	€1.24	16%
France	4.1%	6.6%	€1.22	24%
Germany	2.7%	7.6%	€1.20	25%
Greece	6.5%	10.8%	€0.87	62%
Hungary	2.5%	6.1%	€1.34	38%
Ireland	4.5%	12.7%	€1.26	66%
Italy	4.4%	8.4%	€1.36	43%
Latvia	2.3%	5.0%	€1.25	6%
Lithuania	1.8%	4.0%	€0.97	9%
Luxembourg	2.1%	15.2%	€0.48	55%
Malta	7.9%	20.2%	€0.92	60%
Netherlands	2.9%	6.6%	€1.14	27%
Norway	2.1%	5.3%	€1.11	25%
Poland	1.7%	2.6%	€1.63	15%
Portugal	5.9%	13.1%	€1.25	69%
Romania	2.1%	4.9%	€1.63	28%
Slovakia	2.1%	4.1%	€1.22	40%
Slovenia	3.7%	6.5%	€0.96	60%
Spain	6.3%	12.4%	€1.29	66%
Sweden	2.8%	5.7%	€1.21	19%
Switzerland	4.0%	7.8%	€1.40	48%
Turkey	2.7%	4.0%	€1.84	23%
UK	3.6%	9.4%	€0.85	51%
EU*	3.7%	7.8%	€1.16	38%

Source: Eurostat and EY calculations.
** The EU28 Member States as at 1 July 2013*

Notes:
(1) Total value added by the hospitality sector to Gross Domestic Product (GDP), in 2010.
(2) Total employment supported by the hospitality sector (direct, indirect and induced) as a percentage of total employment, in 2010.
(3) The amount of total additional demand generated in the whole economy, from €1 spent in the hospitality sector, in 2010.
(4) Beer sales in the on-trade as a percentage of total beer sales, in 2010.

Introduction

Introduction

Purpose of this report

This report sets out the conclusions of an independent economic assessment of the hospitality sector in Europe. It was commissioned by The Brewers of Europe, the voice of the European brewing sector in Europe, with the support of HOTREC, the European umbrella association of national trade associations representing hotels, restaurants, cafés and similar establishments in Europe. The purpose of this study is:

- to quantify the economic contribution and overall performance of the hospitality sector and examine the underlying trends; and
- based on the analysis, to identify policy drivers for future performance to support growth and employment.

Whilst a more detailed description of the methodology and approach underpinning the study and analysis is set out in Annex A, the key points are summarised below.

Coverage of this report

The analysis in this report is largely based upon sector level data from Eurostat. This is to ensure consistency in comparability and depth of coverage in the disaggregation of data within the hospitality sector. Sector level data and insight have also been collected from national and institutional statistics' websites and through a consultation exercise with key stakeholders in each country.

Defining the economic impact of hospitality

The analysis of the impact of the hospitality sector in this report seeks to capture the total output it generates through turnover (which increases the total number of transactions and economic activity), the direct value-added delivered to the economy (in contribution to GDP), revenues generated for government (through direct and indirect taxes) and the employment opportunities it provides. The report also examines the economic activity hospitality industries support indirectly in their supply chains as well as the induced impact of wider consumption in the economy supported by hospitality employees' spending in other sectors.

Geographical coverage of the analysis

The analysis presented in Section 1 of this report, covers the 28 member states of the European Union (EU), as at 1 July 2013. Collectively, these countries will be referred to in this report as "Europe".[1] In addition, Section 2 provides reports on the hospitality sector in 31 individual countries, being the EU28, plus Norway, Switzerland and Turkey.

Time-series coverage of the analysis

The general time-period covered by the statistical analysis is 2000 to 2010.[2] This period allows the performance of the hospitality sector to be charted, drivers of performance to be understood and associated policy trends and levers to be identified that have or could have an impact on the industries.

In calculating the wider impact of the sector upon each country covered, the report provides an objective basis for evaluating the nature of the sector and how it has evolved in the period from 2000 to 2010, amid changing tax, regulatory and economic environments. This analysis is summarised in the next chapter and set out in detail in the country reports in Section 2.

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1 Clearly the descriptor 'Europe' goes beyond a strictly geographical or political definition and the boundaries of the single market, but it will be used for the purposes of shorthand in describing the coverage of aggregated analysis set out in Section 1 of this report. Where appropriate, for instance where the analysis refers to a particular subset of countries, this will be made clear in the text.

2 In describing certain trends or for particular countries where a full set of data is unavailable or additional data is available for later years, the time period may be outside the range 2000-2010. Where this is the case, it is clearly labelled and/or footnoted.

Section 1

The economic contribution of the European hospitality sector: performance and policy drivers

1. Characteristics of the sector

The key characteristics of the sector are:

- Direct economic contribution;
- Indirect and induced economic contribution;
- Sensitivity to cost and price; and
- Propensity to support jobs.

Each of these is discussed in more detail below.

1.1 Economic contribution - jobs, growth and taxes

The hospitality sector in Europe is an important contributor to the European economy, through its impact on employment, growth and tax contributions. It directly employs 10.2m people in Europe. Turnover across the hospitality sector is over €1.0tn, equal to approximately 8.1% of total economic output, with gross value added in the sector (the contribution it makes to economic growth) of more than €460bn, or 3.7% of GDP. In 2010, the hospitality sector contributed around €126bn to government treasuries in excise duties, VAT and employment and social security taxes.

1.2 Wider economic contribution - multiplier effects

The sector supports around 16.6m jobs, representing 7.8% of the European workforce or one in every 13 jobs in Europe. As well as directly employing workers in enterprises operating in the hospitality sector, those enterprises support, indirectly, the activity in a broad supply chain, as well as the induced, general economic activity generated by employees in the sector. For example, the agricultural sector is notable as a significant contributor of raw materials for the hospitality sector i.e. constituent ingredients in restaurant food and beverages. As such the hospitality sector has a key role in supporting not just economic aims but also social objectives through support of rural and regional economies. While the significance of this varies across countries, there are considerable divides between rural and urban prosperity in a number of European countries and hence the contribution of hospitality enterprises is notable. Additional sectors that are linked to a successful and thriving hospitality sector include: transportation, tourism, culture, construction, and brewing.

1.3 Economic factors - sensitivity to cost/price

Customers of the hospitality sector are, to a large extent, final consumers. As typical business-to-consumer (B2C) businesses, and with strong competition in the sector (because the sector services basic human necessities around food, shelter and socialising), providers are particularly susceptible to developments in the economy that influence aggregate demand and, more specifically, real changes in price.

At the same time, variable costs such as manpower and raw materials (agricultural products) are significant cost drivers for the industry. This means costs can significantly increase or decrease depending on external factors such as weather patterns and the impact on harvests, as well as shifts in wages, employment taxes and other economic factors. Furthermore, excise duties and Value Added Tax (VAT) are levied on certain activities in the sector. Together this means that providers are not in control of all the elements of their costs.

Overall, the economic responsiveness of the sector (including in the flexibility of the labour market described below) means that the sector tends to perform better than the rest of the economy during times of economic prosperity, but can be more quickly affected than the wider economy, during down times.

1.4 Employment and job creation - supporting participation and a flexible labour market

As direct employers, the hospitality sector plays a fundamental role in supporting job creation across Europe. The sector provides jobs across the skills spectrum: from the highly qualified, to low-skilled and "breakthrough" jobs for those just entering or re-entering the labour market. Indeed, a study carried out by EIM (Small Business Research and Consultancy) in November 1999 for the hospitality sector[1] showed that the hotel and restaurant sector is the most important provider of "first jobs".

The sector thus provides many young people with their first employment experience, allowing them to enter the working world, providing vital experience and training, and opening the door to future jobs. Similarly the sector helps the unemployed to reintegrate into the working environment.

In terms of direct support for EU socio-economic aims, the hospitality sector is the largest employer of migrant labour in Europe. It also offers many groups, who can find labour market participation difficult (parents, students, rural workers, those with caring responsibilities) a flexible approach to working that can enable them to take a job whilst also pursuing other activities or meeting care responsibilities. This enables greater labour mobility and higher participation, contributing to a more flexible and responsive labour market that can adjust quickly to changing economic conditions.

1 "Reduced VAT rates: a must for a sustainable European hospitality sector", page 23; HOTREC, May 2008

2. Performance of the European hospitality sector, 2000 - 2010

For the European economy, the decade between 2000 and 2010 is characterised by three distinct phases:

- relatively modest growth between 2000 and 2003;
- expansion between 2004 and 2008; and
- 2008 recession and subsequent repositioning for growth.

Steady and stable economic conditions in the period from 2000 to end 2003 gave way to significant structural change in the middle phase of the period covered in this report. The expansion of the EU in 2004 through to the end of 2007 widened economic and political unions, reducing barriers to trade and allowed workers to move across borders. The impact of greater movement increased the flow of visitors, especially to new Member States, and helped to fuel a period of expansion in the wider economy and in the hospitality sectors across Europe. This allowed a significant increase in employment in the sector compared to the wider economy (as shown in Figure 2.4 below), particularly for new joiners.

The 2008 global economic downturn impacted the wider economy and the hospitality sector, as consumers' discretionary spending was squeezed, leading to only modest performance in the third period of the decade.

2.1 Output

In the first of the phases identified above, European GDP grew by an average of 3% per annum in nominal terms, followed by 5.6% per annum in the second phase and just 0.3% per annum post 2008 (36% overall and an overall average of 3.2% per annum). The European hospitality sector grew by 38% over the period, at an average of 3.3% per annum, although this masks an average of 4.4% pa in the years preceding 2008 and only 0.24% per annum in the years afterwards (see Figure 2.1).

In 2010, the contribution of the European hospitality sector to output was over €1.0tn, or 8.1% of total economic output (see Figure 2.2).

Figure 2.1:
GDP and hospitality turnover index (2000 - 2010)

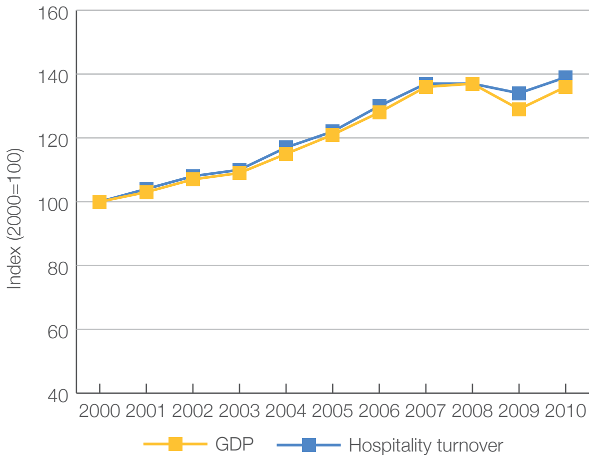
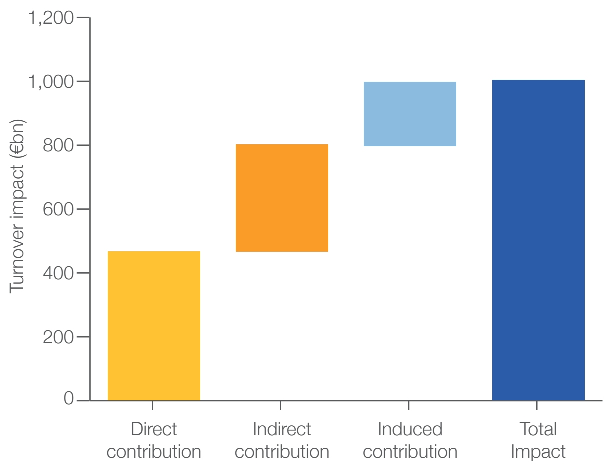


Figure 2.2:
Output of the hospitality sector (2010)



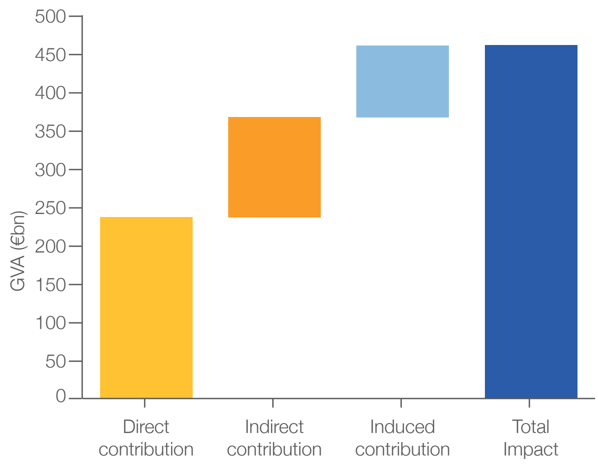
Source: Eurostat

Some €337bn of total output was in indirect benefits stimulated through the sector's supply chains, much of which was intra-EU. A further €201bn of induced benefit was generated in other sectors through sector employees spending their wages. The total effect of this was that for every €1 spent in the hospitality sector, a further €1.16 was stimulated elsewhere in the European economy.

2.2 Gross Value Added (GVA)

Gross Value Added is a measure of the additional economic contribution generated by the hospitality sector to the overall economy.

Figure 2.3: GVA impact of hospitality sector, 2010



In 2010 the European hospitality sector contributed around 3.7% of the total GDP, with just under €460bn. €236bn of this was direct contribution, with a further €131bn of this generated through supply chains. This additional activity supported other operators across domestic markets and the wider EU economy.

2.3 Employment

The growth in employment in the sector has been significant, with 29% more people in jobs in 2010 than in 2000 (representing over 2.5m additional workers in employment). This increase is particularly notable when viewed against the wider economy as a whole, where the total number of jobs increased by 7.1% over the period (less than 1% a year) - see Figure 2.4. There was a marked divergence in performance after 2008, where general employment in the economy declined, whereas average employment across Europe in the hospitality sector continued to increase (albeit masking some decline in individual countries).

Figure 2.4:
EU and hospitality employment index (2000-2010)

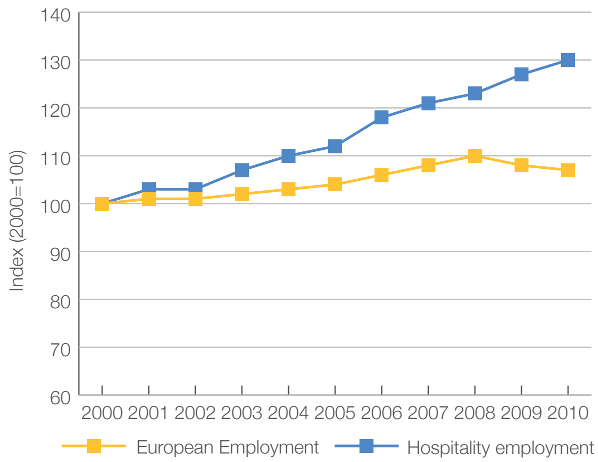
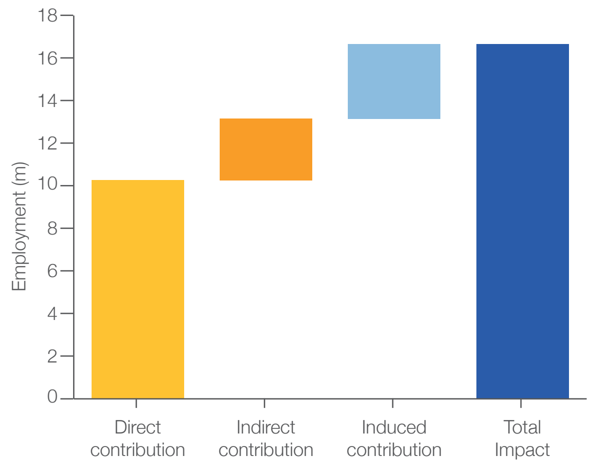


Figure 2.5:
Employment impact of hospitality sector (2010)



Source: Eurostat

As shown in Figure 2.5, in 2010, the hospitality sector supported approximately 16.6m jobs, or one out of every 13 jobs in Europe. 10.2m (one in 21) European jobs were directly in a hospitality related enterprise and a further 6.4m jobs were stimulated through additional supply chain demand and spending of employees' wages on other goods and services.

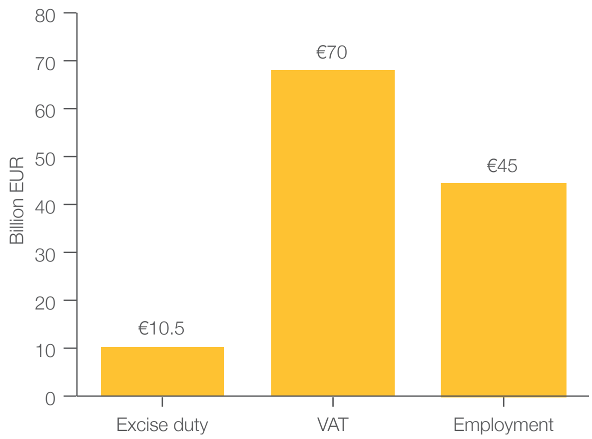
2.4 Taxes

The hospitality sector across Europe generates tax returns to government in a number of ways. These include:

- Corporation tax paid on profit;
- License fees for operating;
- Employment tax contributions (employer and employee);
- Excise duties in the supply chain; and
- VAT on purchases.

In 2010 it was estimated that the hospitality sector contributed around €126bn to government treasuries in excise duties, VAT and employment taxes. VAT was the largest contributor to this total at nearly €70bn in 2010 (56% of the total), followed by €45bn in employment taxes (36%) and €10.5bn in excise duties (8%).

Figure 2.6: Tax receipts by type, 2010



Source: EY calculations

Value added taxes have been the largest element of the taxes paid by the sector over the period and have, in many countries, seen an increase in standard and, where they apply, reduced rates (a table of VAT standard and reduced rates applicable in the EU is included at the end of this chapter. see Figure 2.8). Governments across Europe have also sought to increase levels of excise duty in response to rising national debts and a need to gather additional tax revenues. This has coincided with shrinking personal disposable incomes, meaning consumers' purchasing power has fallen and hospitality goods and services have become relatively more expensive. In a price-sensitive market these factors would be expected to drive down consumption and therefore lower economic contribution the sector is able to make, and this is borne out by the data and the experience of the majority of countries after 2008.

2.5 Other factors affecting performance

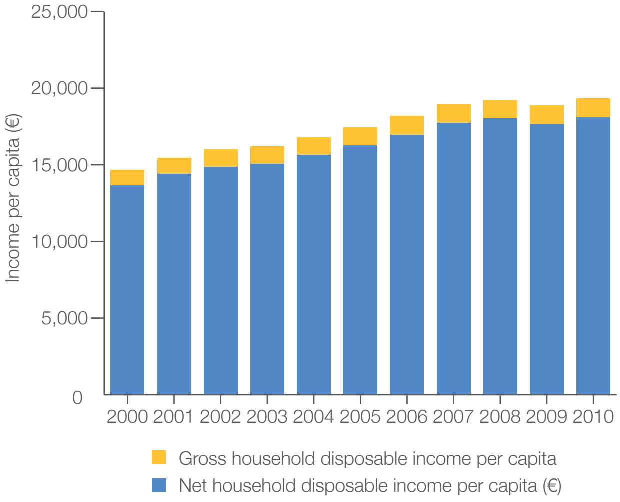
Although growth in turnover and job creation slowed between 2008 and 2010, the number of enterprises in the hospitality sector grew by 3% in the same period (albeit against an annual average of 17% growth over the whole period, 2000 to 2010). Accommodation grew by 9% in total and restaurant, bars and catering by 18%. Thus in the face of economic instability and higher levels of taxation, the hospitality sector was able to be flexible and to continue to provide investment, in part by cutting costs elsewhere. Such cost-cutting methods are unlikely to be repeatable year-on-year.

Looking across the period between 2000 and 2010, most of the indicators of economic wellbeing show healthy performance. However, this masks a recent decline in the third phase of the period. In almost all cases, the sector would have looked considerably healthier and with a greater economic contribution had the analysis ended in 2008.

This final period of the study is important because it begins to uncover shifting patterns of demand that are only partly revealed by the headline indicators.

The hospitality sector is heavily dependent upon disposable incomes, as many of the related activities would fall under discretionary/luxury spending decisions (e.g. as incomes are squeezed entertainment spend may be reduced before less elastic items such as domestic utilities).

Figure 2.7: Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

In real terms, incomes followed a similar path to that of the wider economy, growing to €19,335 in 2008, before falling in 2009 and showing signs of recovery in 2010.

During times of austerity households typically "tighten their belts" restricting their discretionary spending. Areas such as eating out or staying away from home (hospitality services) can be considered easier targets for lower expenditure than other costs, such as utilities. Between 2006 and 2011, there was a shift from on-trade to off-trade sales of beer. These sales increased their share of total volumes in the off-trade by around six percentage points, from 57% to 63%. This increase reflects a number of wider price and income effects, namely the increasing excise duties and VAT witnessed across much of Europe and increasing pressure on domestic discretionary incomes.

Figure 2.8: VAT rates, as of 1 January 2013

Country	Standard rate	Reduced rates		Hotel accomodation	Restaurant	
AUSTRIA	20,0%	10,0%		10,0%	10,0%	
BELGIUM	21,0%	6,0%	12,0%	6,0%	12,0%	
BULGARIA	20,0%	9,0%		9,0%	20,0%	
CROATIA	25,0%	5,0%	10,0%	10,0%	10,0%	
CYPRUS	18,0%	5,0%	8,0%	8,0%	8,0%	
CZECH REPUBLIC	21,0%	15,0%		15,0%	21,0%	
DENMARK	25,0%			25,0%	25,0%	
ESTONIA	20,0%	9,0%		9,0%	20,0%	
FINLAND	24,0%	10,0%	14,0%	10,0%	14,0%	
FRANCE	19,6%	5,5%	7,0%	7,0%	7,0%	
GERMANY	19,0%	7,0%		7,0%	19,0%	
GREECE	23,0%	13,0%		6,5%	23,0%	
HUNGARY	27,0%	5,0%	18,0%	18,0%	27,0%	
IRELAND	23,0%	9,0%	13,5%	9,0%	9,0%	
ITALY	21,0%	10,0%		10,0%	10,0%	
LATVIA	21,0%	12,0%		12,0%	21,0%	
LITHUANIA	21,0%	9,0%		21,0%	21,0%	
LUXEMBOURG	15,0%	6,0%	12,0%	3,0%	3,0%	
MALTA	18,0%	7,0%		7,0%	18,0%	
NETHERLANDS	21,0%	6,0%		6,0%	6,0%	
POLAND	23,0%	8,0%		8,0%	8,0%	
PORTUGAL	23,0%	6,0%	13,0%	6,0%	23,0%	
ROMANIA	24,0%	9,0%		9,0%	24,0%	
SLOVAKIA	20,0%	6,0%	10,0%	20,0%	20,0%	
SLOVENIA	22,0%	9,5%		9,5%	9,5%	
SPAIN	21,0%	10,0%		10,0%	10,0%	
SWEDEN	25,0%	6,0%	12,0%	12,0%	12,0%	
UK	20,0%	5,0%		20,0%	20,0%	
NORWAY	25,0%	8,0%	15,0%	8,0%	25,0%	
SWITZERLAND	8,0%	2,5%		3,8%	8,0%	
TURKEY	18,0%	8,0%		8,0%	8,0%	18,0%

Source: HOTREC: European trade association of hotels, restaurants and cafes; www.hotrec.eu

3. Conclusions from economic impact assessment

As noted above, and in the country reports in Section 2, the analysis of the period covered has seen three distinct phases of economic activity and shifting structural factors that allow conclusions to be drawn about the performance of the hospitality sector under a variety of prevailing market and economic conditions:

- The hospitality sector has played an important role as a driver of growth and job creation in Europe, particularly in the first two of the phases described above. In the third phase, the hospitality industry continued to create new jobs, while job creation in the EU economy as a whole was negative. It has demonstrated characteristics of price-elastic responses in demand, typically outperforming the wider economy during periods of prosperity, but, in a number of countries, quickly shedding jobs and contracting during the downturn.
- Growth in the sector has not been consistent across all of the countries assessed. Typically those countries with already large hospitality sectors at the beginning of 2000 (in either absolute terms or as a proportion of the total economy) experienced lower average growth in the subsequent ten years, reflecting the relatively mature nature of their market.
- With €1.16 additional demand generated in the wider economy for every €1 spent in the sector, supporting the hospitality sector adds value to the economy and drives growth and job creation. In addition, such job creation can target vulnerable groups in the labour market, supporting social policy goals as well as economic ones.
- The sector's responsiveness to economic conditions supports job creation and economic growth, but as noted, also makes it vulnerable to conditions and policies that proliferate in a downturn.
- Measures adopted in times of austerity, which increase tax rates at a time when disposable incomes are falling, are likely to undermine the ability of the sector to generate growth. Moreover - due to the nature of excise duties levied on the sector - at a time when competition for consumers' marginal pound of spending in the economy is increasing, enterprises in the hospitality sector have less control over elements of their pricing, and therefore less flexibility to respond to changing economic conditions.
- In the short term this is expected to lead to cost cutting and later (as such measures are unlikely to be repeatable year-on-year), to a loss in permanent capacity.

The analysis set out in this chapter has examined the key elements of performance for the sector over the period and has identified drivers underpinning that performance. The next chapter considers policy levers that policy makers could target if they chose to help support performance in the hospitality sector in order to help drive growth and job creation.

4. Policy considerations and drivers of future performance for the hospitality sector

In the face of challenging ongoing economic conditions and modest aggregate growth in the medium term, the hospitality sector faces a range of challenges if it is to continue to grow and contribute value and jobs to the wider economy. A number of key factors have been identified that can be linked to appropriate policy levers to influence and support growth and job creation in the sector. These are:

- Prices;
- Employment costs;
- Material costs; and
- Property costs.

These factors and associated policy levers are examined in detail below.

4.1 Prices

The sector has been shown to have price-sensitive demand. Measures likely to be taken to tackle fiscal deficits - such as taxes on labour and sales, as well as excise duties (considered below) - can be expected to depress demand. In contrast, measures which help to lower the price of goods and services provided in the hospitality sector, either nominally or relative to substitutes, such as through targeted VAT reduced rates, can be expected to increase economic contribution; and through multiplier effects, increase the contribution of the sector to economic performance.

Price policy lever: VAT standard and reduced rates

The range of VAT, standard and reduced rates, are detailed at the end of chapter 2. Existing standard rates of VAT range from 8% to 27% in the countries examined (15% to 27% inside the EU). Since the downturn began in 2008, a number of countries have experienced at least one increase in the standard rate of VAT, as governments have sought direct ways of increasing tax returns and reducing deficits. Some countries have experienced multiple rate changes.

In general, indirect taxes such as VAT are broadly recognised to be more efficient than direct taxes on income or earnings, since consumers can theoretically choose whether or not to pay them through their consumption choices. In practice, basic necessities such as food, heating, transport and fuel have a relatively low sensitivity to price (evidenced by a low price elasticity of demand[1]). For these goods and services, value added taxes can be highly regressive, since poorer households tend to spend a greater percentage of their household income on them than richer households[2].

In pursuing distributional and social objectives (reducing the incidence of the tax on the poor), the regressive nature of VAT can be reduced by applying reduced rates to goods and services. Many countries choose to favour the hospitality sector over the general economy in this way, given its contribution to skills and employment and given that it competes with lower value-added (in economic terms) substitutes such as take-aways and stay-at-home meals.

Negative factors of VAT reduced rates, identified in earlier European Commission consultations - such as distortion of the single market - whilst potentially true and an issue for some industries, do not appear to hold for the hospitality sector. Reduced rates in the hospitality sector are no impediment for the proper functioning of the internal market. The services provided are mainly local and not likely to create distortions of competition. As such, the way a Member State taxes these services does not appear to affect revenues in other States. Reduced and differing rates have been in use for many years and have not created major issues to the functioning of the EU VAT system.

Even in countries where reduced rates of VAT already apply, some consideration could be given to the scope of those rates. Extension to areas of the hospitality sector not currently supported in this way would be one tool to enable the sector to manage fluctuating demand conditions.

1 "Examples of this are necessities like food and fuel. Consumers will not reduce their food purchases if food prices rise, although there may be shifts in the types of food they purchase. Also, consumers will not greatly change their driving behaviour if gasoline prices rise." Don Hofstrand, University of Iowa: http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-207.pdf

2 "Who Pays: A Distributional Analysis of the Tax System in All 50 States"; Institute on Taxation and Economic Policy, November 2009.

Price policy lever: other targeted taxes that influence price

Other taxes which directly impact upon the European hospitality sector include tourist taxes and duties levied on specific food products.

Of the countries assessed, 15 apply some form of tourist tax. These are usually based upon a per-night stay in accommodation and are set locally. The addition of a tourist tax reduces the effectiveness of reduced VAT rates on accommodation and impacts overall price competitiveness in relation to alternative leisure industry activities that don't have such levies applied, or simply to staying at home.

4.2 Employment costs

As a provider of 10.2m direct jobs in Europe in 2010 and another 6.4m through the supply chain and associated industries, employment costs can be a large driver of price within the hospitality sector. Of €126bn tax revenues contributed to government coffers in 2010, employment taxes accounted for 36% or €45bn. As such, any future changes to employment taxes could impact heavily on prices for consumers and ultimately therefore on demand.

Given the sector is an important provider of "first jobs", and of jobs for vulnerable groups in the labour market, it can encourage greater opportunity, employment and participation in the labour market across Europe.

Employment policy lever: changes to employment and social security taxes

Future changes that increase taxes on employment could have potentially negative impacts on the economic contribution of the sector, as well as damaging socio-economic outcomes.

A number of countries examined in this study have measures to reduce overall employment costs, for example targeted cuts in employer social security contributions aimed at small and medium sized enterprises. Such measures, while unlikely to be sectoral in nature, can be supportive of the hospitality sector as part of a broader package of support for SMEs.

4.3 Materials

As noted in Chapter 3, a number of elements of the inputs to hospitality enterprises' production chain contain factors and costs that are at least partly out of the control of the enterprises themselves. Not much can be done at this point about bad weather and the impact on agriculture (and therefore raw materials for the hospitality sector), but governments do have control of additional levies on the activities of the hospitality sector which can drive up prices and can negatively affect growth and jobs.

Materials policy lever: Excise duties

Excise duties levied upon alcoholic beverages impact the hospitality sector by increasing overall costs and therefore prices of their service offering. Governments across Europe have sought to increase levels of excise in response to a need to gather additional tax revenues.

One impact of the trend towards higher excise duties is the implication for consumer behaviour in terms of how and where they consume alcoholic beverages. Increasing average tax levels on alcoholic beverages is a contributing factor to a higher proportion of alcoholic beverages being consumed at home, forgoing the economic benefits that the same consumption could stimulate in the on-trade given the established multiplier effects.

Whilst a similar upward trend in excise duties has been witnessed across beer, wine and spirits, the total level (and the percentage of total price) for each type varies. The average for wine is particularly low due to the large number of European countries (primarily wine producers) who apply zero excises on wine (18 out of 31 countries).

The move to raise revenues by increasing excise duties can have counterproductive effects on demand, reducing consumption and therefore tax take. One risk is that this creates an uneven playing field for the hospitality sector with substitute activities elsewhere in the leisure industry that are not subject to such levies.

Materials policy lever: targeted taxes that affect material costs

Saturated fat and sugar taxes are becoming increasingly common in policy debate as governments seek ways of adjusting consumer behaviours to drive health benefits. As yet, however, only three countries in our sample currently apply any such tax (France, Finland and Norway) with a fourth (Denmark) having scrapped a saturated fat tax within a year of introduction.

4.4 Property

Unlike other industries that have benefited from overall reductions in fixed and capital costs, many of the advances of technology (such as cloud computing) are not beneficial at all or to the same degree in the hospitality sector. Hospitality enterprises still require fixed locations with associated costs.

Property policy lever: business rates

Governments' policies towards business rates and the costs of securing space in major conurbations often fail to reflect the particular needs of the hospitality sector. Hospitality enterprises often require a critical mass of floor space, room for patrons, fixtures and fittings in order to be viable. Policies to support affordable business and commercial property including through business rates are a critical consideration for the sector.

Section 2

Country reports

Austria

Austria

Key Statistics

Average annual GDP growth rate, 2000 – 2010 (nominal)	**3.3%**
Hospitality sector average annual growth rate, 2000 – 2010 (nominal)	**4.2%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€28.9bn** (10.1% of the total)
GDP	**€15.9bn** (5.5% of the total)
Employment	**430,000** (10.7% of the total)

Total tax contribution of hospitality **€2.7bn**

Excise	**€0.06bn** (3.0% of the total)
VAT	**€1.3bn** (50.0% of the total)
Employment	**€1.3bn** (47.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.95** is spent in the wider economy.

Key Messages

- The Austrian hospitality sector has been a relative success story, growing at 4.2% per annum between 2000 and 2010.
- Despite this strong performance, supported by a stable tax environment, some risks remain. A steady decline in the on-trade share of beer sales suggests that consumers are becoming increasingly sensitive to price.
- Whilst the overall share of the on-trade has fallen, the sector has remained resilient to the recession in 2009, with overall sector turnover increasing and the number of bars growing.

Summary

The economy in Austria has recovered well following the global economic downturn: over the 2000 to 2010 period, nominal GDP grew at an average rate of 3.3%, whilst the hospitality sector grew at 4.2% per annum, despite a significant contraction in both GDP and hospitality sector turnover in 2009. Growth in employment across the Austrian economy has been relatively flat since 2000, with the hospitality sector outpacing the economy as a whole in terms of job creation and overall productivity gains.

The hospitality sector is driven by restaurants and hotels, who together account for over 88% of turnover in the sector and 88% of employment. The bars sub-sector is relatively small in Austria, accounting for only 5% of all hospitality enterprises in 2011, and only 3% of turnover. Despite this, the number of bars is increasing, reflecting the ability of operators to innovate and adjust the way they face the market. In the future the hospitality sector in Austria should benefit from a likely boost in consumer spending due to income increases as a result of the economic recovery and an accompanying decline in unemployment.

The continued success of the hospitality sector in Austria is in part due to the stability of the tax environment between 2000 and 2010. A reduced rate of VAT of 10% applies to the majority of the hospitality sector, but with a special regulation for beverages. Beverages are subject to the standard rate of VAT of 20%, excluding milk, cocoa (with milk) and water which are subject to the reduced rate of VAT of 10%. These rates have been unchanged since 2000. Excise duty rates, applied to beer and spirits in Austria, have also remained stable throughout this period.

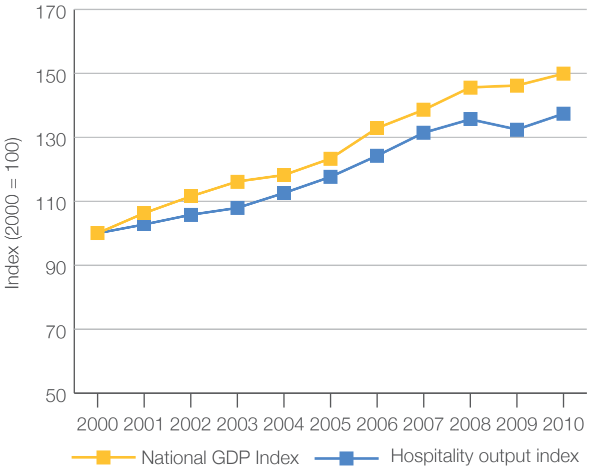
A tourism levy is also enforced in Austria, which is payable on all types of overnight accommodation. The levy is administered on a provincial basis, and varies significantly between provinces (ranging up to €2.18 per night). Whilst the economic downturn of 2009 was compounded to some extent by the introduction of the indoor smoking ban in that year, the bar sub-sector has rebounded strongly, creating an additional 400 jobs by the end of 2010.

Economy Overview

Over the 2000 to 2010 period, nominal GDP has been growing at an average rate of 3.3% per annum, with growth strengthening markedly between 2004 and 2007 driven by strong net exports and domestic demand. Turnover in the hospitality sector grew more strongly over this period, with an average annual growth rate of 4.2%. There was a significant contraction in both GDP and hospitality sector turnover in 2009.

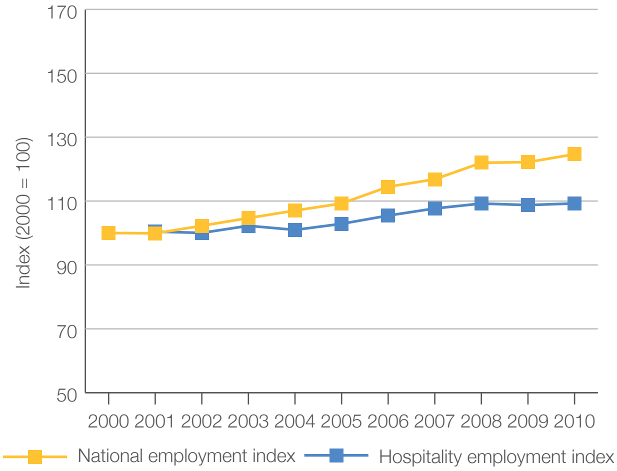
The economy recovered strongly to 2010, with increasing net exports and a gradual return to positive investment growth. Growth in employment has been relatively flat since 2000, with the hospitality sector outpacing the economy as a whole in terms of job creation. Net disposable income growth has slowed since 2007, but has not contracted, leading to a sustained increase in private consumption of around 1% per annum. Tourism has continued an upward trend, despite a small slowdown in 2009.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

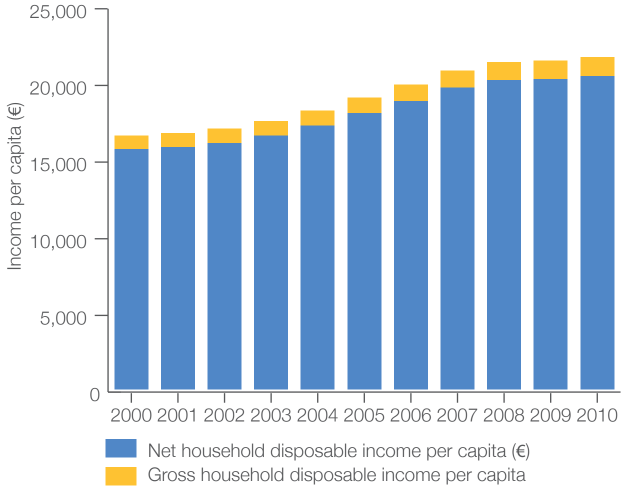
Hospitality turnover has moved broadly in line with GDP in Austria between 2000 and 2010. Over the period, Austria's nominal GDP has grown at an average annual growth rate of 3.3% compared to 4.2% for turnover in the hospitality sector (both in nominal terms). Although there was generally a positive growth trend over the period, both GDP and turnover in the hospitality sector faced a short downturn in 2009, caused by the global financial crisis.

Inflation in Austria over the 2000 to 2010 period has grown at an average annual rate of 2.1%. Adjusting for inflation, average GDP growth over the period was 1.2%, and growth in the hospitality sector was 2.1%.

The growth in employment in the hospitality sector in Austria has outpaced that of employment in the economy as a whole between 2000 and 2010. Total employment in the hospitality sector rose by 24% in the period, reaching over 264,000 by 2010.

Of particular note has been the continued growth in employment in 2009, against a backdrop of shrinking turnover and slowing domestic incomes.

Real Net and Gross disposable income per capita EUR, 2000-2010

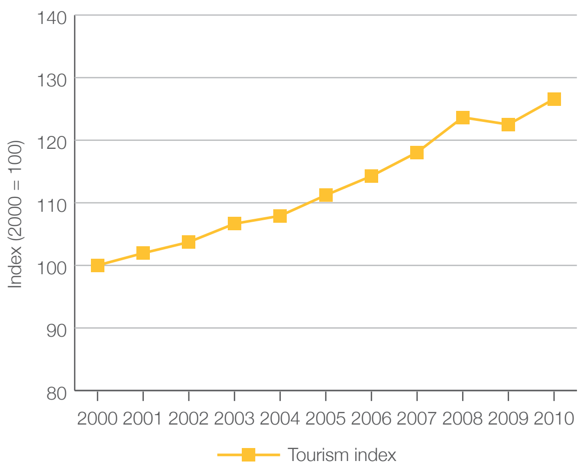


Source: Eurostat

Over the 2000 to 2010 period, net real disposable income has continued to grow in Austria, although the growth in disposable income has slowed somewhat since 2007.

Importantly for the hospitality sector, private consumption has continued to grow over the period at an average 1.0% per annum from 2007 onwards.

Tourism index, 2000-2010



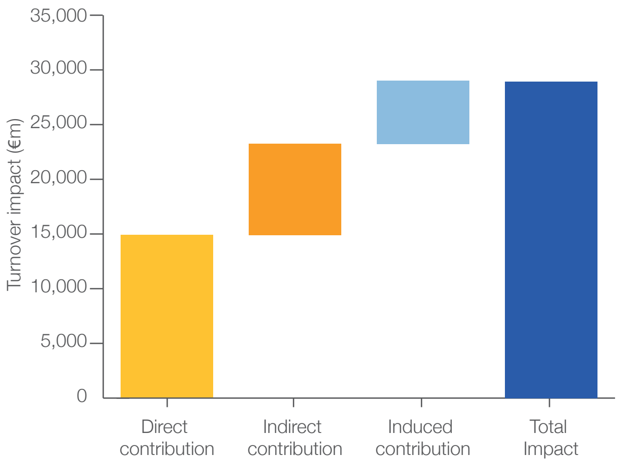
Source: Statistik Austria

Tourism is an important contributor to the turnover of the hospitality sector in Austria, accounting for between 60% and 80% of the sector's performance. Tourism in Austria has grown strongly over the 2005 to 2010 period. Despite a small decline in 2009, overall visits were up by over 25% between 2000 and 2010.

Economic Contribution of the hospitality sector

The total turnover supported by the Austrian hospitality sector in Austria is estimated to be almost €28.9bn, or 10.1% of total output. Austria's hospitality sector contributes almost €15.9bn of value added, representing 5.5% of total GDP, and supports approximately 430,000 employees in total, including direct, indirect and induced impacts. The economic contribution of the hospitality sector in Austria is relatively high compared with the European average. For every €1 spent by the sector, an additional €0.95 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

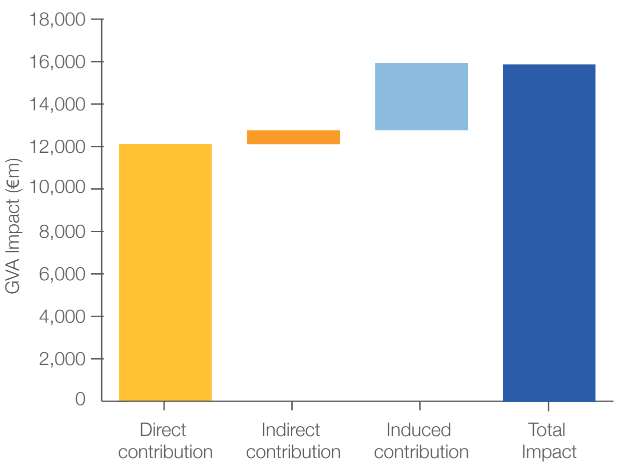
Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector was €28.9bn in 2010, which is equivalent to 10.1% of output. This is a relatively high impact compared to the European average. For every €1 spent by the hospitality sector an additional €0.56 of demand is generated in its supply chain (this is based upon the 'indirect' turnover multiplier, which calculates the impact on the supply chain only, thus not including the 'induced effect').

Value added impact of hospitality sector, 2010

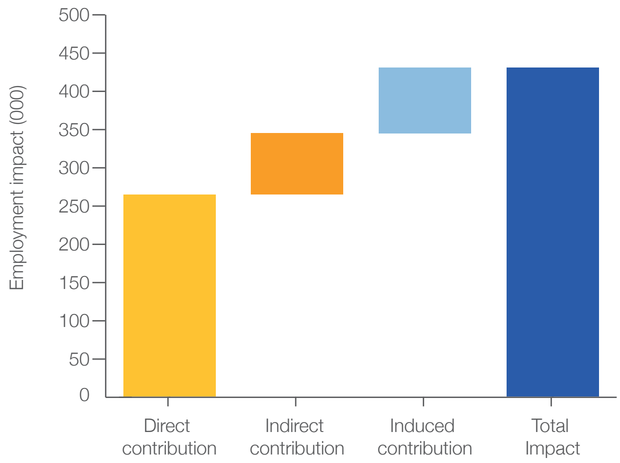


Source: Eurostat, EY calculations

The total value added by the Austrian hospitality sector is almost €15.9bn, equivalent to 5.5% of GDP. The Austrian hospitality sector has a relatively small indirect value added multiplier (1.56), suggesting that the sector in Austria may import a higher proportion of high value added inputs.

Considering the direct, indirect and induced impacts together, the total value added impact of the Austrian hospitality sector is relatively high compared with the European average, with Austria ranking 7th out of all European countries in terms of the total value added impact as a proportion of GDP.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

The Austrian hospitality sector directly employs some 264,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to Austrian employment is an estimated 430,000 jobs. This is equivalent to almost 11% of total Austrian employment, which is a relatively high impact compared to the European average.

Regulation / Taxation

A reduced rate of VAT of 10% applies to the majority of the hospitality sector but not for beverages. All beverages, excluding milk, cocoa (with milk) and water are subject to the standard rate of VAT of 20%. Beer and spirits are subject to excise duties and wine is zero rated. A tourism levy is also enforced in Austria, which is payable on all types of overnight accommodation. The levy is administered on a provincial basis, and varies significantly between provinces (ranges up to 2.18).

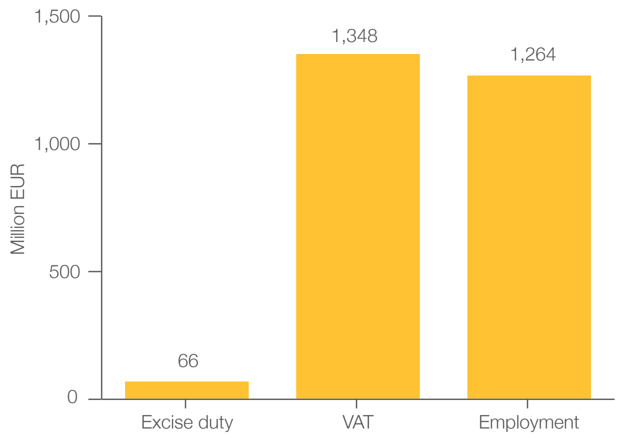
The VAT rate has remained constant throughout the 2000 to 2010 period and excise duties applied in Austria have remained constant for beer and spirits since 2005.

Tax receipts

The Austrian hospitality sector is estimated to have contributed almost €2.7bn to the Exchequer in 2010 from excise duty, VAT, income tax and employment related contributions. Of this, €66m was raised in excise duties from sales of alcoholic beverages through on-trade channels.

The Austrian government also collected an estimated €1.35bn in revenue from gross VAT receipts (deducted VAT is not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Tax receipts relating to employment in the sector totaled almost €1.3bn in 2010. This includes income taxes and social security contributions from both employees and employers.

Excise Duty

The hospitality sector in Austria has faced a relatively stable excise duty regime. Excise duty on beer has remained at €2 per °Plato / hl whilst spirits have remained at €1000 per hl pure alcohol since 2005. Wine is zero rated. This stable excise environment helps to explain the relatively small decline Austria has witnessed in on-trade demand, when compared with much of Europe.

VAT and Reduced rates

The standard VAT rate has remained at 20% in Austria over the 2000 to 2010 period (the European average rate is 21%). As with 27 of the 31 European countries reviewed, Austria applies a reduced rate (of 10%) across the majority of the hospitality sector, including for accommodation and restaurants but not for beverages (excluding milk, cocoa [with milk] and water which are also subject to the reduced rate of VAT of 10%).

Other taxes

Austria also imposes a tourism levy. The levy is payable on overnight accommodation (including campsites) and is administered on a provincial basis. The levy payable varies between provinces and ranges from €0.15 to €2.18 per person, per night, and has increased in some provinces over the 2000 to 2010 period.

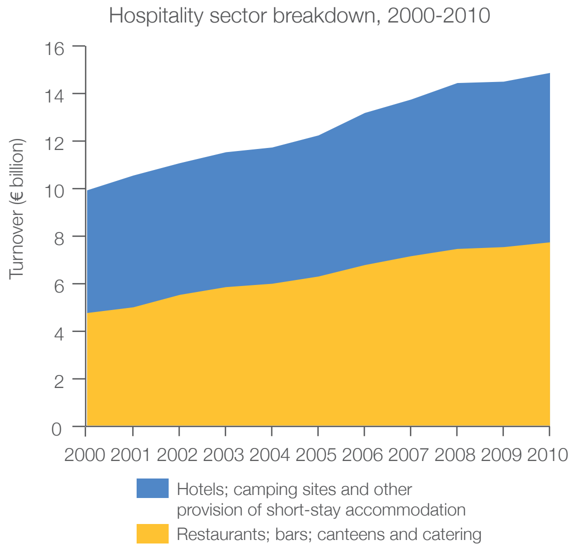
Hospitality sector in focus

Overall growth in the hospitality sector in Austria has been broadly positive over the 2000 to 2010 period. Austrian hotels account for the largest proportion of turnover in the sector; however the restaurants sub-sector accounts for the largest share of enterprises and employees.

The bars sub-sector is relatively small in Austria, accounting for only 5% of all hospitality enterprises in 2010, and only 3% of turnover, despite Austria being one of the top beer consuming countries in Europe. This is largely driven by classification, with other enterprises such as cafés and hotel bars not accounted for in the data.

Regulation in the Austrian hospitality sector in general continues to be a concern for operators in terms of the investment and time cost of compliance.

Turnover in the hospitality sector

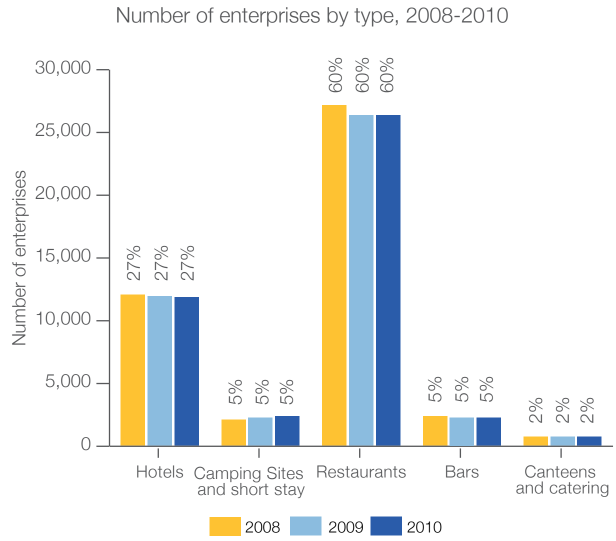


Source: Eurostat

Growth in the hospitality sector in Austria has been broadly positive, with a slight slowdown in 2009 as a result of the economic downturn in Europe, a softening of tourist numbers and the impact of the introduction of a smoking ban. In 2010 total hospitality sector turnover reached €14.8bn, a 50% increase from 2000 levels.

The food and beverage sub-sector contributed around 52% of the total turnover in the hospitality sector in Austria in 2010, with the remaining 48% of 2010 turnover being generated by accommodation. Although both sub-sectors experienced growth in turnover over the 2000 to 2010 period, the food and beverage sub-sector has grown at a faster rate.

Enterprises in the hospitality sector



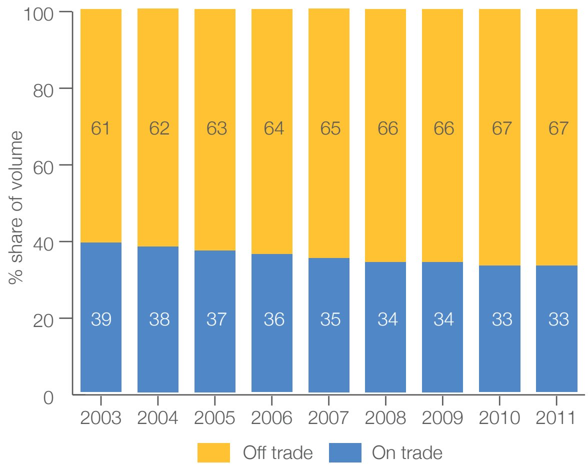
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

The number of enterprises in each sub-sector remained stable between 2008 and 2010, with restaurants contributing the majority of enterprises to the sector (60%).

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2003-2011



Source: The Brewers of Europe

The majority of beer is purchased in the off-trade in Austria, representing 67% of total sales in 2011.

The share of off-trade has increased by six percentage points since 2003.The introduction of a partial indoor smoking ban in 2009 appears to have had only a minor impact upon where people consume alcoholic beverages (disregarding overall consumption levels).

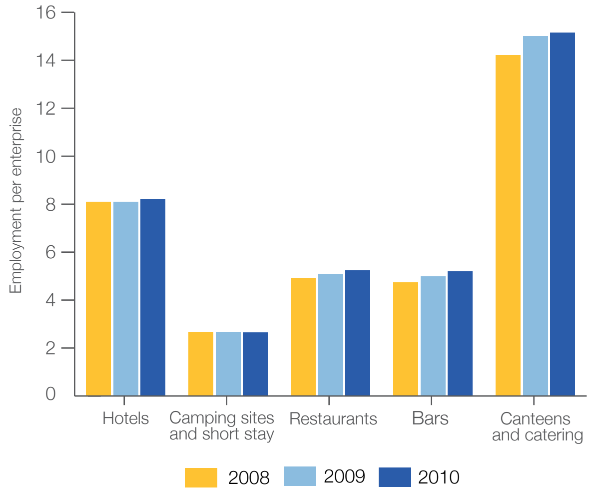
Any shift in consumption from the on-trade to the off-trade is likely to result in lower overall economic activity and the associated employment benefits.

Employment in the hospitality sector

Despite a slight dip in 2001, employment in the hospitality sector has experienced a positive trend over the 2000 to 2010 period, reaching over 264,000 in 2010.

Total employment in the sector has shown strong resilience to wider economic pressures and regulatory changes such as the introduction of a higher minimum wage for the hospitality sector and dismissal fees for workers.

Employment per enterprise, 2008-2010



Source: Eurostat

Employment increased slightly from 2008 to 2010 for most enterprise types, with only the camping sites and short stay sub-sector experiencing a slight decrease in employee numbers. Although the canteens and catering sub-sector represent the smallest share of enterprise numbers (2%), it employs the highest number of employees per enterprise.

Enterprise Focus

BARS

Austria has a strong beer culture, with a long history of brewing. In recent years, consumption of beer has been relatively stable despite a modest shift towards greater off-trade sales.

Despite the aforementioned beer culture, Austria has one of the smallest bar sub-sectors in Europe, contributing only 3% of turnover in the sector.

This chiefly relates to a particularly specific definition of the bar sub-sector, which does not account for a range of other enterprise types (including 8,902 declared as cafés, 4,744 enterprises declared as coffee-restaurants and 1,461 enterprises declared as 'espressos')[1].

Although smoking restrictions are currently in place in Austria, there has been some recent debate regarding the limited enforcement of the regulations. Should the restrictions be enforced more strictly, this may act to further constrain demand for the bars sub-sector.

Opening and closing hours for bars are determined by state governments and communities can adapt closing times to their specific needs. A tightening of regulations in these areas may present a challenge to Austrian bars in the future.

1 Data provided by the Austrian Hospitality Association

RESTAURANTS

Restaurants are the largest sub-sector in the Austrian hospitality sector in terms of establishment and employee numbers (with 60% of enterprises and 52% of all employees).

It is the second largest sub-sector in terms of turnover, accounting for 43% of total turnover in 2010. Performance in recent years has been strong, with turnover increasing each year from 2008 onwards.

Regulation continues to represent a challenge to the sub-sector in terms of the investment and time cost associated with compliance. A shortage of skilled staff in the sub-sector has also been identified by operators as a challenge going forward. This may act to drive up wage costs, and may constrain improvements in labour productivity.

HOTELS

The hotels sub-sector contributes the most to total Austrian hospitality sector turnover, accounting for 45% of total turnover in 2010. Hotels employ the second highest number of employees and have the second highest number of establishments in the hospitality sector. Following a decline in turnover in 2009, the sub-sector recovered in 2010, with a total turnover of €6.7bn. As with restaurants, the cost associated with regulatory compliance has been identified as a challenge going forward.

A hotel classification system is operated by the Austrian Professional Hotel Association (APHA), with around half of all accommodation units and around 70% of all hotels having been classified. A need to maintain and improve quality standards has been identified by operators as a key factor in stimulating demand.

The growth of online review sites continues to prove both an opportunity and a challenge to Austrian hotels. Although the sites provide opportunities in terms of marketing, they have also acted to increase price competition in the sub-sector.

Belgium

Belgium

Key Statistics

Average annual GDP growth rate, 2000 – 2010 (nominal)	**3.5%**
Hospitality sector annual growth rate, 2000 – 2010 (nominal)	**3.3%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€24.9bn** (7.0% of the total)
GDP	**€9.3bn** (2.6% of the total)
Employment	**263,000** (5.9% of the total)

Total tax contribution of hospitality **€3.9bn**

Excise	**€0.17bn** (4.0% of the total)
VAT	**€2.1bn** (52.0% of the total)
Employment	**€1.7bn** (43.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.08** is spent in the wider economy

Key Messages

- The Belgian hospitality sector has largely reflected wider economic performance, growing at 3.3% per annum between 2000 and 2010.
- Despite a fall in the proportion of on-trade beer sales, bars and restaurants have recovered strongly since the 2009 downturn, stimulating growth in employment of 13% in the hospitality sector as a whole.
- Whilst the full impact of the extension to the reduced rate of VAT in 2010 has not been captured, the 11% increase in restaurant turnover in that year highlights the effectiveness (and relative immediacy) of such a policy intervention.

Summary

Over the 2000 to 2010 period, the Belgian economy grew at an average annual rate of 3.5% in nominal terms. Over the same period, turnover in the hospitality sector grew at an average rate of 3.3%. There was a contraction in both GDP and hospitality sector turnover in 2009, as a result of the global economic downturn. GDP recovered slightly to 2010; however the recovery in the hospitality sector has been stronger, driven by, amongst other things, a reduction in the VAT rate applied to the restaurant and catering sub-sectors.

The Belgian hospitality sector is currently subject to a standard rate of VAT of 21% on beverages, a reduced rate of 12% on food served in hotels and restaurants (introduced in 2010), and a reduced rate of 6% which applies to accommodation. All alcoholic beverages are subject to excise duty in Belgium. VAT and excise duty rates (other than the reduced rate for food in restaurants and catering) have remained constant since 2008, up until 2013 when wine and spirits excise duties were increased by 12%.

The food and beverage sub-sector is large in Belgium relative to other European countries, accounting for approximately 80% of turnover in the sector. Belgian restaurants are the largest sub-sector in the hospitality sector by some margin, accounting for 53% of total hospitality sector turnover and 58% of employment. Government stimulus, via the extension of the reduced VAT rate, following the 2009 recession has had a marked positive impact on the sector, with turnover in the restaurant sub-sector increasing by 11% in 2010.

Whilst the hospitality sector as a whole has performed relatively strongly since 2004, there has been a consistent movement towards purchasing beer in off-trade establishments, and thereby reducing the wider economic activity and jobs stimulated through on-trade sales.

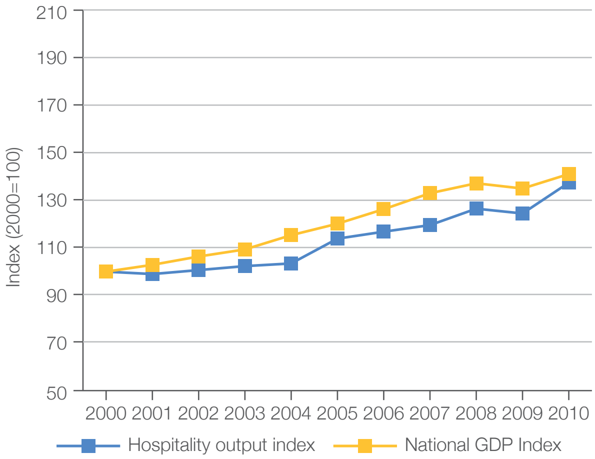
Economy Overview

From 2000 to 2010, nominal GDP grew at an average rate of 3.5% in Belgium. Over the same period, the hospitality sector grew at an average rate of 3.3%. There was a contraction in both GDP and hospitality sector turnover in 2009, as a result of the global economic downturn. GDP recovered slightly to 2010; however, the recovery in the hospitality sector has been stronger.

Growth in employment generally has been stable, but relatively modest. Employment in the hospitality sector has been relatively more volatile, with a sharp contraction in 2009. Employment in the sector recovered to 2010 as a result of government fiscal stimulus packages and a return to positive demand growth.

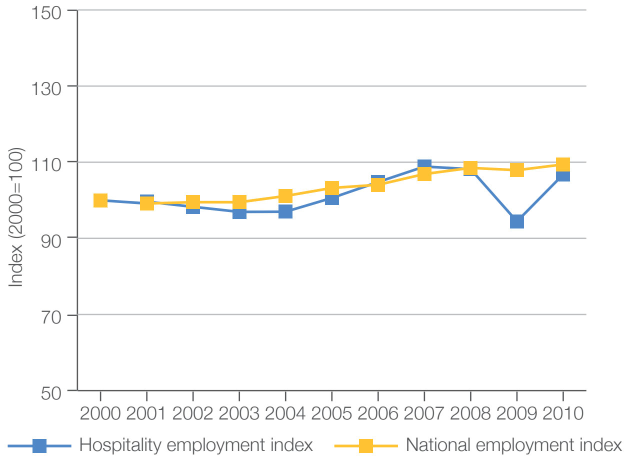
The Belgian economy continues to face challenges resulting from the ongoing economic uncertainty in the Eurozone area. Current economic conditions suggest that consumer spending is likely to remain subdued going forward, which may undermine any recovery in demand for the hospitality sector.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

Between 2000 and 2008 Belgium witnessed consistent, yet modest, economic growth, with a brief recession in 2009 and a relatively strong recovery in 2010 (when compared with many European countries).

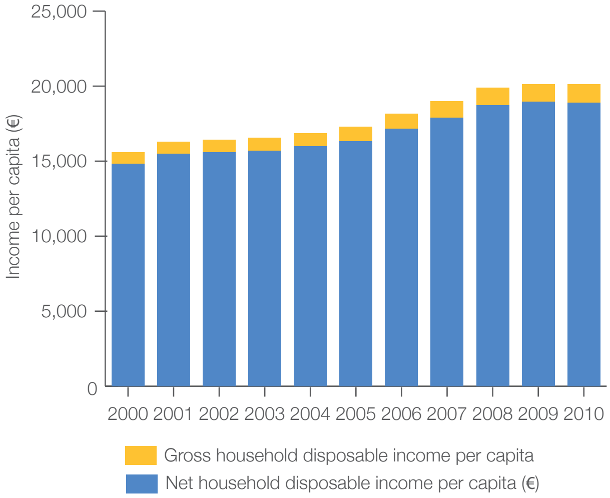
Over the same period, growth in hospitality followed a similar trend, with an average annual growth rate of 3.3% between 2000 and 2010. The hospitality sector helped to drive Belgium out of recession in 2010, aided by changes to applicable VAT. Growth in turnover of 11% in 2010 highlights how effective government policies have been in supporting the hospitality sector.

Inflation in Belgium over the 2000 to 2010 period has grown at an average annual rate of 2.3%. Adjusting for inflation, average GDP growth over the period was 1.2%, and growth in the hospitality sector was 1.0%.

Employment in Belgium has experienced a stable growth path between 2000 and 2010, whilst employment in the hospitality sector has been slightly more volatile, with a significant decline of 12.7% in 2009.

Alongside a return to positive turnover growth in 2010, hospitality also significantly increased the number of job opportunities it offered, with employment rising back to 2008 levels within one year. This demonstrates the sector's ability to translate growth into jobs quickly.

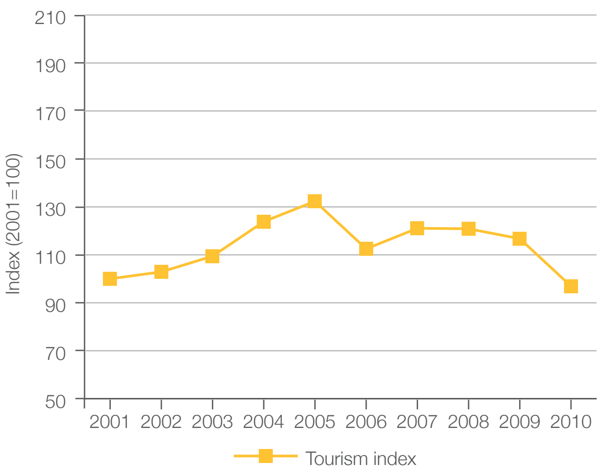
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Between 2000 and 2010, real disposable income per capita has grown in every year. Growth in disposable income accelerated between 2004 and 2008, followed by a significant slowdown in 2009 and 2010.

Tourism index, 2001-2010



Source: Eurostat

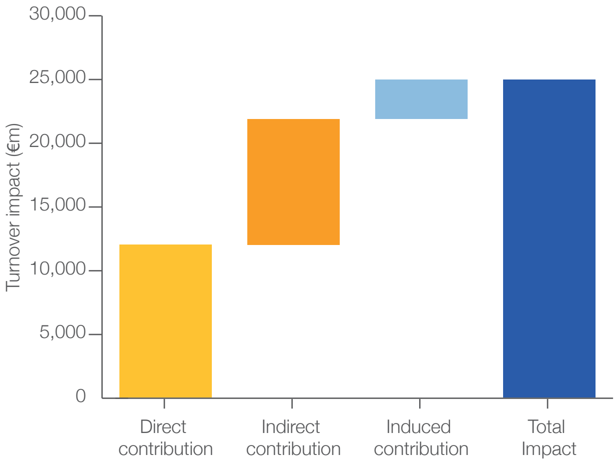
Tourism is an important contributor to the hospitality sector in Belgium, particularly so within coastal areas where 80% to 100% of hospitality performance is estimated as being linked to tourist numbers.

Tourism within Belgium has been relatively volatile, with an increase in tourism between 2001 and 2005, and sharp declines in 2006 and 2010. Whilst the expansion of the EU in 2004 and 2007 provides a wider market for visitors to Belgium, it has also increased competition, with many more European countries/cities now offering greater accessibility and often lower prices.

Economic Contribution of the hospitality sector

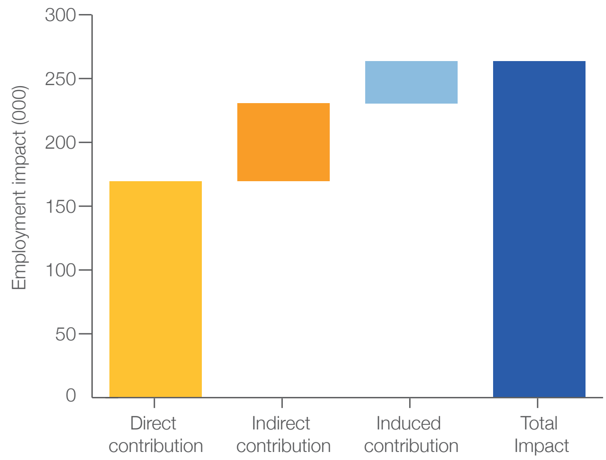
The hospitality sector in Belgium supports turnover of €24.9bn, or 7% of the total. This equates to €9.3bn of value added to the economy (representing 2.6% of GDP) and supports approximately 263,000 employees, including direct, indirect and induced impacts. The economic contribution of the hospitality sector to total GDP in Belgium is relatively low when compared to the European average. For every €1 spent by the sector, an additional €1.08 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

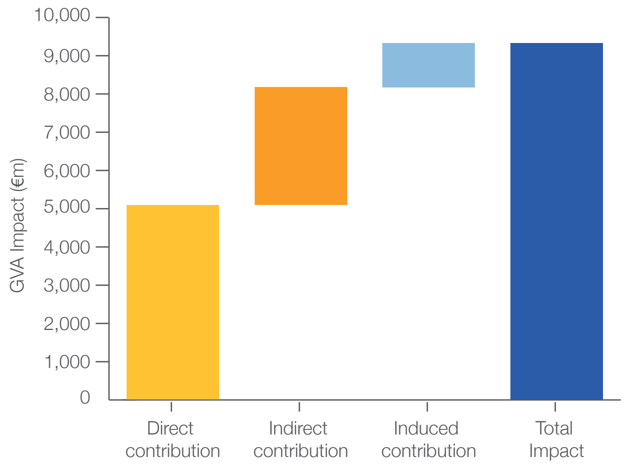
Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

Belgium's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.83, meaning that for every €1 spent by the hospitality sector an additional €0.83 of demand is generated in its supply chain. The total turnover supported by the sector is almost €25bn, which is equivalent to 7% of the total.

GDP impact of hospitality sector, 2010



The total value added of the Belgian hospitality sector is €9.3bn, equivalent to 2.6% of GDP. This is relatively low compared to the European average. Similarly to the turnover impact, Belgium has a relatively large indirect value added impact. This implies that its supply chain is composed of a relatively low proportion of imported goods.

In 2010, the Belgian hospitality sector directly employed 169,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to Belgian employment is an estimated 263,000 jobs.

This is equivalent to almost 6% of total Belgian employment. Consistent with the other indicators, the employment contribution of the hospitality sector is lower than the European average but still represents a significant proportion of the total Belgian jobs market.

Regulation / Taxation

The Belgian hospitality sector is currently subject to a standard rate of VAT of 21% and a reduced rate of 6% which applies to accommodation. The restaurant sub-sector has benefited significantly from a fiscal stimulus in 2010, which reduced the rate of VAT on food served in hotels and restaurants (and other catering establishments) from the standard rate to 12%.

Alcoholic beverages are also subject to excise duty, from which the Belgian Exchequer received €173m in revenue in 2010. Whilst excise duty rates were unchanged between 2008 and 2012, there was a 12% increase on duty applied to wine and spirits at the start of 2013.

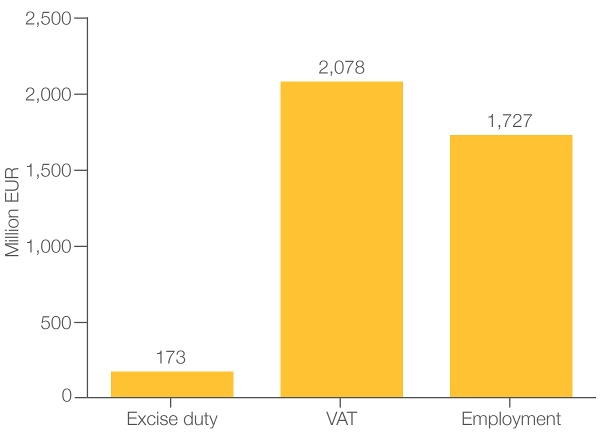
A tourism tax is also enforced in Belgium. This is administered at a city level and the tax rate and calculation method varies between municipalities.

Tax Receipts

The Belgian hospitality sector is estimated to have contributed almost €3.9bn to tax revenues in 2010 from excise duty, VAT and employment taxes alone. Of this, €173m was collected through excise duty arising from the sale of alcoholic beverages through on-trade channels.

The Belgian government also collected over €2bn in gross VAT receipts from the hospitality sector in 2010[1].

Tax receipts by type, 2010



Source: EY calculations

Tax receipts related to employment in the sector totalled over €1.7bn in 2010. This includes income taxes and social security contributions from both employees and employers.

Excise Duty

Excise duty on beer has been unchanged over the period at €1.71 per °Plato / hl. Duties on spirits and wine were both increased by 12% at the start of 2013. Duty on still wine is now €52.75/hl and duty on spirits is €1,962/hl pure alcohol.

VAT and Reduced rates

In Belgium, the standard rate of VAT has remained at 21% between 2000 and 2010. A reduced rate of 6% applies to accommodation and take-away food.

In 2010, the government introduced an additional reduced rate for restaurants and catering services. This reduced the VAT rate from 21% to 12% for these businesses. Alcoholic and non-alcohol beverages served on these premises are excluded from the reduced rate.

Other taxes

A tourism tax also impacts on the hospitality sector in Belgium. The tax is administered at a city level and the tax rate and calculation method varies between municipalities. For example, in Brussels, hotels are categorised and pay an amount per room per year, based on hotel size and classification (and is typically around 10% of the room rate; one of the highest in Europe[2]). The mechanism for collecting this tax liability is determined at the hotel or borough level.

1 Gross VAT receipts do not include an adjustment for VAT reclaimed by operators

2 Belgian Hospitality Association

Hospitality sector in focus

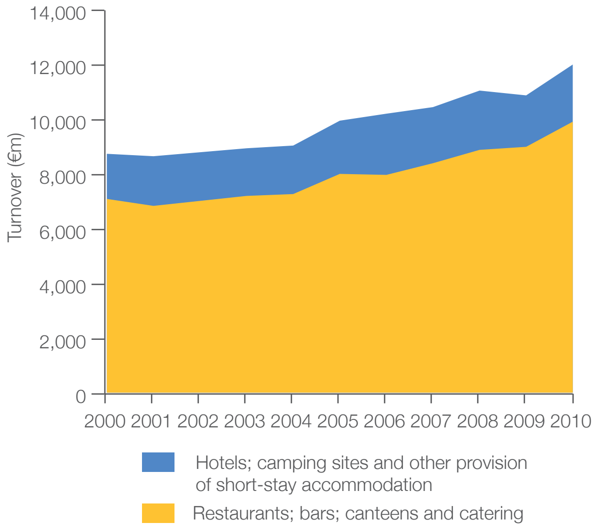
The food and beverage sub-sector accounts for approximately 80% of turnover in the hospitality sector. This is a significantly higher proportion than that observed in other European countries. Belgian restaurants are the largest sub-sector by some margin, accounting for 53% of total hospitality sector turnover and 58% of employment.

The introduction of a reduced VAT rate for food served in restaurants and cafés has had a marked positive impact on the sector, with turnover in the restaurant sub-sector increasing by 11% in 2010. This highlights the sensitivity of demand for eating out against price and income levels. In the context of slowing income growth, restaurants have shown some ability to manage prices to maintain affordability for consumers. The return to growth this has stimulated is reflected in turnover and employment in 2010.

Whilst the hospitality sector as a whole has performed relatively strongly since 2004, there has been a consistent movement towards purchasing beer in off-trade establishments, and thereby reducing the wider economic activity and jobs stimulated through on-trade sales.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010



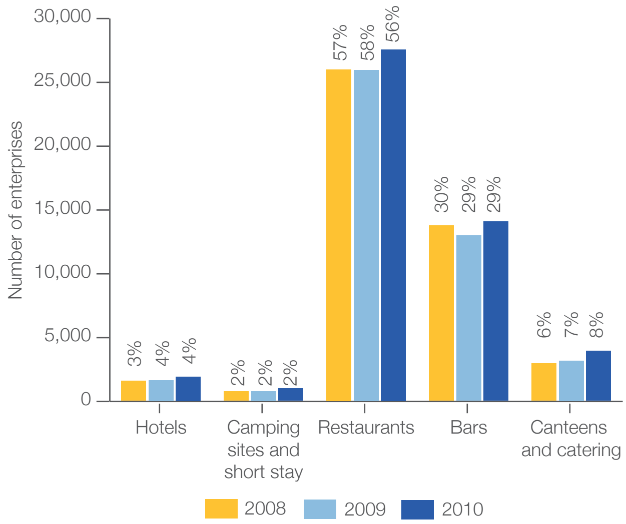
Source: Eurostat

Overall, the hospitality sector has experienced a 3.3% average annual growth in turnover over the 2000 to 2010 period.

The sector experienced a decrease in turnover in 2009, but has recovered strongly in 2010 following the introduction of a reduced rate of VAT on food services. This decrease in VAT is likely to have had a particularly positive impact in Belgium, given the relatively large share of the food and beverage sub-sector; representing 80% of total turnover in the hospitality sector. This is a significantly larger share than that observed in the majority of other European countries.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



Source: Eurostat

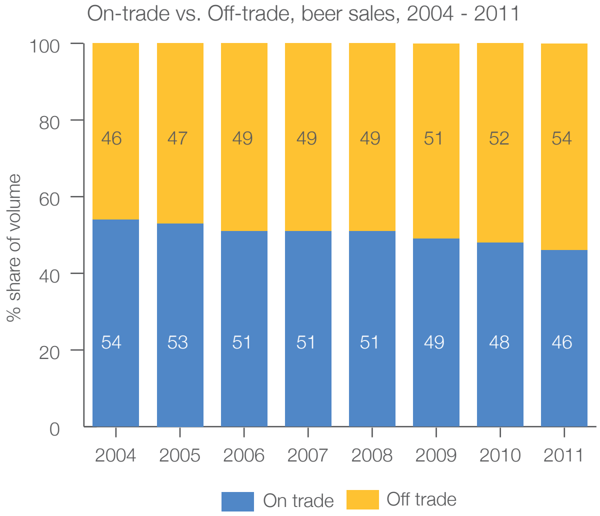
Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Restaurants make up the largest proportion of establishments, representing 56% of the total in 2010. Hotels make up a relatively small proportion of hospitality enterprises at 4%.

Despite wider economic challenges the number of enterprises in each hospitality sub-sector increased in 2010. This trend was most noticeable for hotels, where the number of enterprises grew by 18% in 2009. The number of restaurants grew by 6% and the number of bars grew by 8% in the same period.

The growth in enterprises demonstrates the hospitality sector's ability to react to changing economic conditions and help to support a return to positive growth across the country; each new enterprise will stimulate new investment and employment.

On-trade vs. Off-trade



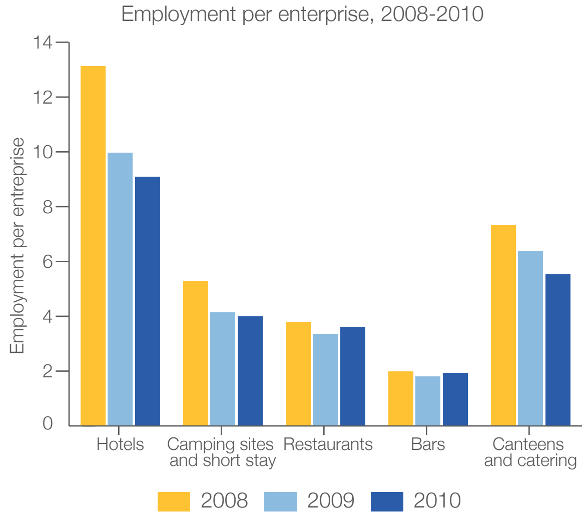
Source: The Brewers of Europe

In Belgium, there has been an observed change in drinking patterns from 2004 to 2011. In 2004, the majority of beer was purchased from on-trade establishments (54%). However this was reversed by 2011, with the majority of beer now being purchased from off-trade establishments (54%). Whilst the trend away from on-trade sales had already been established, the implementation and tightening of smoking ban restrictions in Belgium may have further contributed to the decline.

Employment in the hospitality sector

Employment in the hospitality sector in Belgium has faced a relatively volatile growth path over the 2000 to 2010 period, peaking in 2007 at over 172,000 employees.

The sector faced a sharp decline in employment in 2009, with employment contracting by 12.7% relative to 2008 job numbers. Employment has since recovered strongly, increasing by 13% in 2010 and almost recovering all of the jobs lost in 2009.



Source: Eurostat

Consistent with the trend in the broader hospitality sector, employment per enterprise fell in all sub-sectors between 2008 and 2009. Employment per enterprise has since increased to 2010 in the restaurants and bars sub-sectors, however in all other sub-sectors, employment per enterprise contracted further in 2010, highlighting productivity gains.

Enterprise Focus

BARS

The bar sub-sector in Belgium is relatively large and there continues to be a strong bar culture in the country. Bars are the second highest employer in the hospitality sector, accounting for 16% of all employees in 2010. The bar sub-sector is characterised by a comparatively large number of small businesses, with an average turnover per enterprise of just under €107,000 compared with just under €233,000 for the restaurant sub-sector.

In January 2007, a smoking ban was implemented in Belgium for restaurants and bars, except those that have less than 30% of their sales from food servings. Small bars were also not included in the initial regulations. In January 2010, a general smoking ban then came into force which included all bars except those which did not serve food. However, in July 2011, this exemption was removed in order to avoid a distortion to competition, thus banning smoking in all Belgian bars and restaurants.

The enforcement of this revised smoking ban has been questioned in some quarters, with some operators still of the view that some bars continue to allow smoking in their establishments, thus distorting competition.

Other regulatory rules and burdens placed on the sub-sector (including the implementation of new mandatory rules for maximum sound levels for instance) may lead to compliance costs and to a reduction in demand.

Although implementation plans are not yet clear, the regionalisation of licensing laws in Belgium may also have consequences on bar operators going forward.

"Black box" cash registers will be mandatory in the hospitality sector in Belgium (on a voluntary basis from January 2014 and a mandatory basis from January 2015).These aim to tackle tax evasion by registering every transaction, and communicating this information to the government. This is likely to lead to more professional financial management in the sector, but may increase costs for those businesses that use casual labour. This additional financial burden may provide a threat to profitability in the short term, and raise barriers of entry for potential new operators.

RESTAURANTS

Restaurants are the largest sub-sector in the Belgian hospitality sector by some margin in terms of turnover, employment and enterprise numbers. The sub-sector accounted for 53% of total hospitality sector turnover in 2010 and 58% of employment. Restaurant performance in recent years has been very strong, with an 11% increase in turnover in 2010. As noted above, a key contributing factor to this acceleration in growth is the fiscal stimulus provided by the 2010 reduction in the rate of VAT from 21% to 12% for food served in restaurants.

HOTELS

Hotels represent the second largest sub-sector in the Belgian hospitality sector on a turnover basis, accounting for 14% of the sector's turnover in 2010. Although hotels generated more revenue than the bars sub-sector in 2010, thus employed fewer people, supporting over 17,000 jobs compared to almost 27,000 in the bars sub-sector.

Performance in the sub-sector has been mixed in recent years, with hotel turnover declining in 2009, before a particularly strong recovery in 2010. Given that tourism numbers declined in 2010, this suggests that domestic consumption largely drove this recovery.

Changes to regulation (such as for fire safety and classification) continue to present both a challenge and an opportunity to hotels in Belgium. Whilst they are likely to bring benefits in terms of quality and customer safety, there will also be costs (investment and time) of compliance.

Belgium joined the Hotel Stars Union (HSU) in March 2013. The HSU is a harmonised hotel classification system, which is currently operational in 13 countries across Europe. Hotel operators hope that this will provide an opportunity going forward as transparency on hotel quality can support marketing and stimulate demand.

As with other European countries, the growth of online hotel review and booking sites continues to pose a challenge for the hotel sub-sector. Particularly, a focus on price competition may act to drive down prices.

Bulgaria

Bulgaria

Key Statistics

Average annual GDP growth rate, 2000 – 2010 (nominal)	**10.0%**
Hospitality sector annual growth rate, 2000 – 2010 (nominal)	**11.6%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€3.7bn** (10.3% of the total)
GDP	**€1.5bn** (4.2% of the total)
Employment	**250,000** (8.2% of the total)

Total tax contribution of hospitality	**€323m**
Excise	**€60m** (18.0% of the total)
VAT	**€241m** (75.0% of the total)
Employment	**€22m** (7.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.57** is spent in the wider economy.

Key Messages

- The hospitality sector outperformed the economy for the whole period, diverging notably after accession in terms of output and employment. It is a strong supporter of the overall economy with a multiplier of 2.57.
- Sector prosperity is driven particularly by tourism, with hotels and restaurants accounting for 74% of hospitality sector.
- There has been a dip in performance of the sector from 2009. The sector faces a raft of value added, local municipal and tourist sales taxes. Future performance will depend upon these not depressing the recovery, especially in accommodation (37% of the total turnover of the hospitality sector) where the VAT reduced rate has increased from 7% to 9% in 2011.

Summary

As with much of Europe, the Bulgarian economy was impacted by the global economic crisis. Before this period, the country was one of the fastest growing economies in Europe, with a rapidly expanding tourism industry, supporting wider development of the hospitality sector. The hospitality sector as a whole grew, on average, by over 11% per annum between 2000 and 2010, whilst the economy as a whole grew at 10% per annum, highlighting the increasing role the sector played in wider economic prosperity.

The growth in Low Cost Carrier airlines in the early 2000's and then accession to the EU in 2007 significantly increased the number of European tourists, rising from 35% of the total in 2000 to a peak of 69% in 2009. The sector has increased capacity and employment to support this wider growth in tourism and foreign investment throughout the period.

Operators in the hospitality sector in Bulgaria typically face a range of license fees, point of sale taxes (VAT, tourism tax) as well as corporate, employment and local municipal taxes. VAT in Bulgaria has been at a standard rate of 20% since 1999 (where it was 22%), with reduced rates only applied to hotels within the hospitality sector. This reduced rate has been increased from the initial 7%, introduced in 2007, to 9% in 2011. As well as an increase in the reduced rate, the maximum tourism tax (levied per night stay) has increased from around €0.50 to €1.50.

In 2010, hotels and restaurants accounted for 37% of the total hospitality sector turnover each (74% combined), with a further 19% provided by the bar sub-sector. Whilst the period after 2008 has been challenging from a turnover perspective, the number of enterprises has grown, with an additional 3,900 enterprises between 2008 and 2010.

Going forward, the wider economic conditions in Europe will prove to be important for the Bulgarian hospitality sector, due to its dependence upon tourism from the affected countries. Bulgaria will face increasing competition for international tourists which may continue to put pressure on operator profitability, especially in the context of rising hotel VAT rates and tourist taxes.

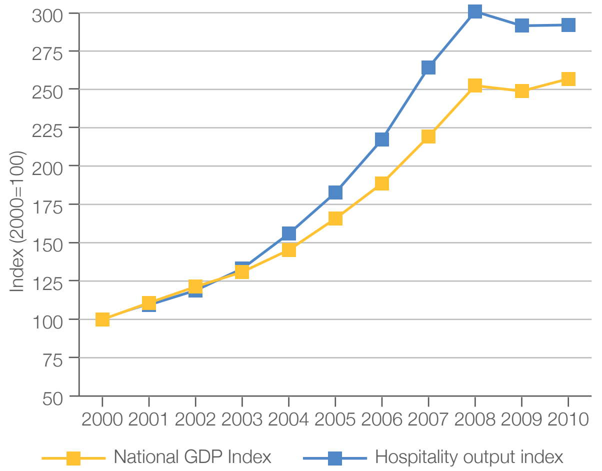
Economy Overview

As with much of Europe, the Bulgarian economy was impacted by the global economic crisis. Before this period the country was one of the fastest growing economies in Europe, with a rapidly expanding tourism industry, supporting wider development of the hospitality sector. The hospitality sector as a whole grew by 11.6% per annum between 2000 and 2010 whilst the economy as a whole grew by a corresponding 10% per annum, highlighting the increasingly important role the sector has played in wider economic prosperity.

The key growth period for Bulgaria was between 2004 and 2008, where average annual growth in the hospitality sector is estimated at 19% (twice the average rate for the whole period).

The growth in Low Cost Carrier airlines in the early 2000s and then accession to the EU in 2007 significantly increased the number of European tourists, rising from 35% of the total in 2000 to a peak of 69% in 2009.

GDP and hospitality turnover index, 2000 - 2010

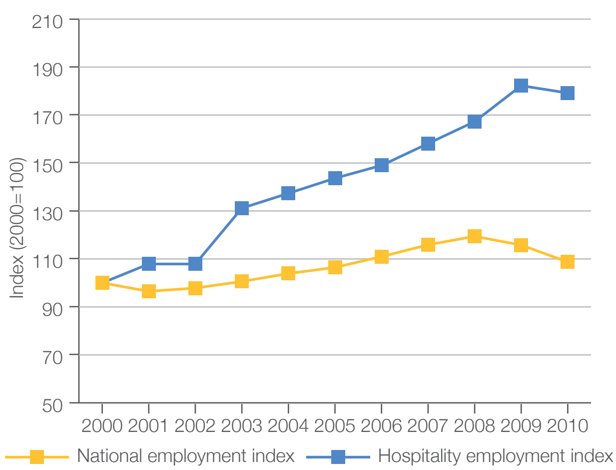


Source: Eurostat

The Bulgarian economy grew at the third highest rate in Europe between 2000 and 2010 at 10% per annum (nominal). A key driver of this growth was the increasing role of the hospitality sector, which grew at an even faster rate of 11.6% per annum (nominal).

Throughout the same period inflation in Bulgaria grew at an average of 6.0% per annum. In real terms, therefore, GDP grew by 4% per annum whilst the hospitality sector grew by 5.6% per annum.

National and hospitality employment index, 2000-2010

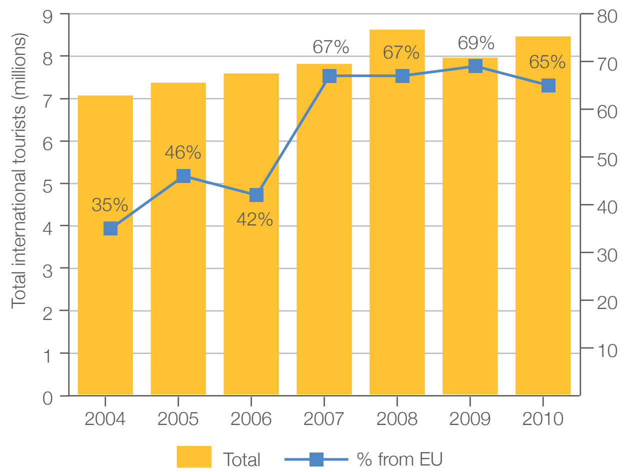


Source: Eurostat

The increasing role of hospitality in the Bulgarian economy is reflected in the rise of employment within the sector, from around 77,000 in 2000 to over 140,000 at the peak in 2009. In 2010 the hospitality sector supported over 8% of the total workforce in Bulgaria.

This is particularly significant when assessed against national employment levels, which have remained relatively stagnant during the period.

Tourism index, 2004-2010



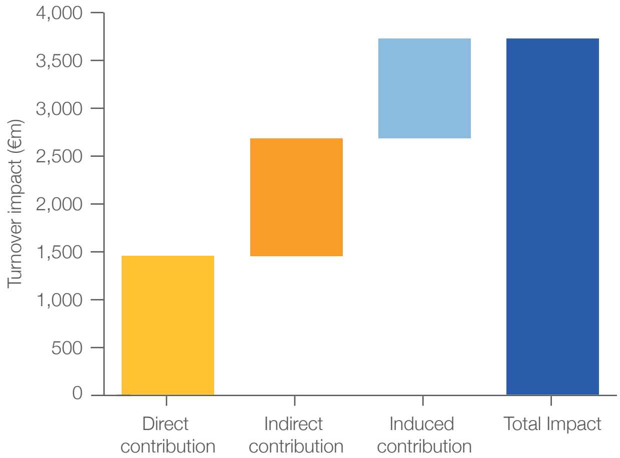
Source: Bulgaria National Statistical Institute

The expansion of the hospitality sector in Bulgaria can, in part, be attributed to a growth of international tourists during the period (a 20% increase between 2004 and 2010), with the percentage of EU visitors almost doubling. In accommodating this growth in tourism, the hospitality sector has continued to expand and invest. This has helped to provide genuine stimulus to the wider economy and supported an increasing number of jobs.

Economic Contribution of the hospitality sector

The Bulgarian hospitality sector supported total turnover of €3.7bn in 2010, 10.3% of total output, which is high relative to the rest of the EU. This equates to a value added to GDP of €1.5bn, 4.2% of the total. For every €1 spent by the sector, an additional €1.57 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of almost 250,000 jobs are supported by the Bulgarian hospitality sector, representing over 8% of the total workforce.

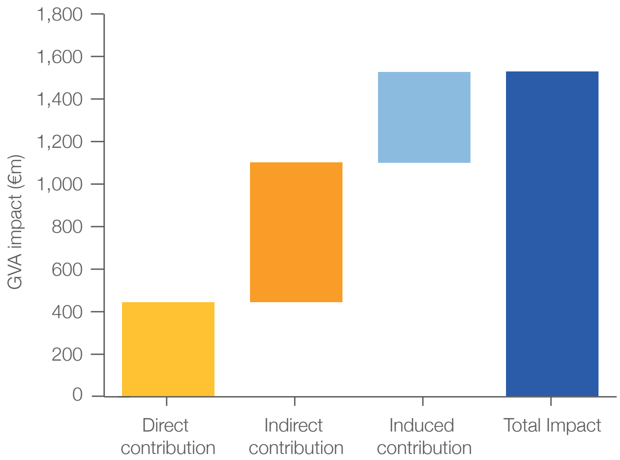
Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector in Bulgaria was €3.7bn in 2010, which represents 10.3% of total output, the sixth highest contribution in Europe. This reflects the increasing importance of the tourism industry over recent years. Bulgaria's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.85, meaning that for every €1 spent by the hospitality sector an additional €0.85 of demand is generated in its supply chain. The indirect contribution of the hospitality supply chain is marginally above the European average, whilst the induced effect is the fourth highest, suggesting that the relative wages and density of employment are high and of greater relative importance to wider economic performance than in other countries.

GDP impact of hospitality sector, 2010

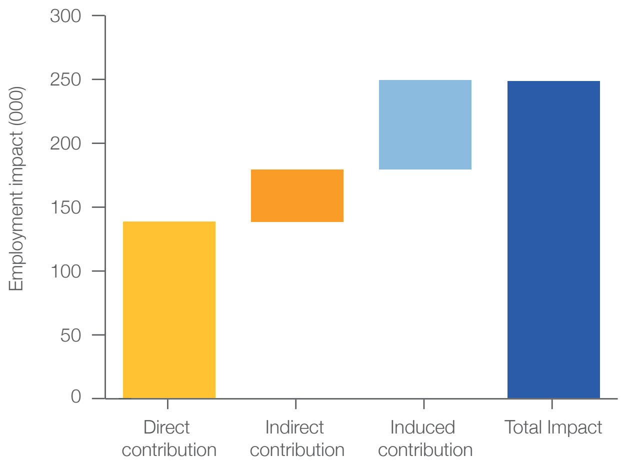


Source: Eurostat, EY calculations

The value added to Bulgarian GDP allows a comparison of how important the hospitality sector is in terms of the specific value added to the economy, and the relative importance of imports to the supply chain. In 2010 the hospitality sector contributed around €1.5bn to national GDP, representing 4.2% of the total.

The value added in Bulgaria is particularly high, with the indirect and induced GVA multipliers (2.5 and 3.5 respectively) the highest across all European countries. This demonstrates both the domestic nature of the supply chain and the value driven through the economy through employee wages.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

In total the hospitality sector supports around 250,000 jobs in Bulgaria, equating to around 8.2% of the total workforce. Of these 138,000 are directly employed by the hospitality sector.

Regulation / Taxation

Operators in the hospitality sector in Bulgaria typically face a range of license fees, point of sale taxes (VAT, tourism tax) as well as corporate, employment and local municipal taxes. VAT in Bulgaria has been at a standard rate of 20% since 1999 (where it was 22%), with reduced rates only applied to accommodation within the hospitality sector.

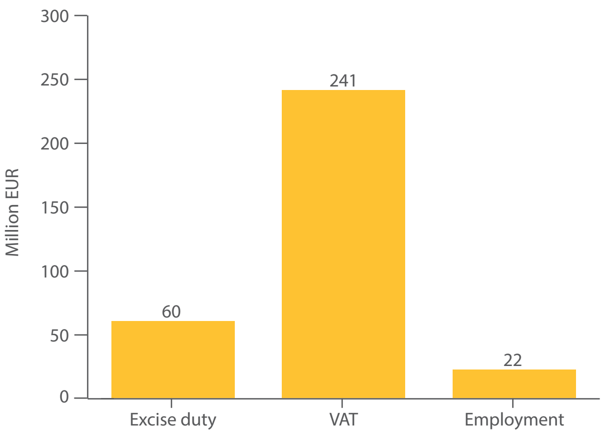
This reduced rate has been increased from the initial 7%, introduced in 2007, to 9% in 2011. As well as an increase in the reduced rate, the maximum tourism tax (levied per night stay) has increased from around €0.50 to €1.50.

A full indoor smoking ban was implemented in Bulgaria in 2012, restricting smoking in hotels, restaurants and bars. This has placed greater pressure on Bulgarian operators, as consumers may respond by changing their consumption habits away from the sector.

Tax Receipts

The hospitality sector directly generates tax receipts for government in a number of ways. The VAT on sales, excise duties and employee related taxes (employee and employer contributions) totalled around €323m in 2010.

Tax receipts by type, 2010



Source: EY calculations

Of this total, 75% is generated through gross VAT receipts (VAT deductions have not been accounted for), 18% from excise duties and a further 7% from employee related taxes.

Excise Duty

Excise duty on beer has remained stable at BGN 1.5 per °Plato / hl. Wine is zero rated and spirits are subject to a duty of BGN 1,100 per hl pure alcohol, which has not changed since 2006.

VAT and Reduced rates

Bulgaria has a standard rate of VAT of 20% (reduced from 22% in 1999), which is levied across the whole hospitality sector except for accommodation, where a reduced rate has been in place since 2007. This reduced rate was initially set at 7% but has since been increased to 9% in 2011.

A VAT rate of 20% is marginally lower than the European average of 21%. The increase in the reduced rate applied to hotels will have a direct impact upon pricing and therefore the Bulgarian hotel industry's ability to compete for international tourism.

Other taxes

Alongside the taxes identified above, Bulgaria also has in place sector specific taxes and licensing costs which add additional burden to operators and consumers.

Hotels and other accommodation businesses are required to levy a tourism tax on overnight visitor stays. The actual amount levied per night is determined at the municipal level but the overall range is defined. This has increased from a maximum €0.50 (1.00 BGN) to €1.50 (3.00 BGN) depending upon the type of establishment. A further resort tax of €8 per stay is applied on Bulgarian Littoral resorts.

The vast majority of Bulgarian hospitality enterprises must also pay for an annual license, which depends upon the type of activity and the scale of operation. These can vary up to around €250 per year.

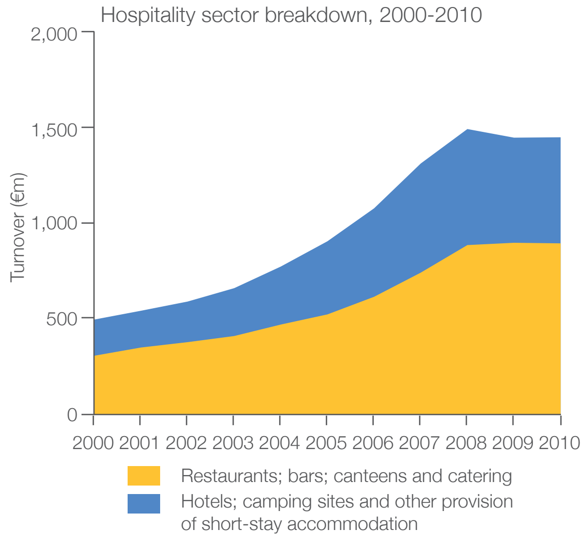
Hospitality sector in focus

The hospitality sector has had an increasingly important role to play in the growth of the Bulgarian economy between 2000 and 2010. The sector has increased capacity and employment and helped to support the wider growth in tourism and foreign investment throughout the period. The global economic crisis undermined the growth in output by dampening foreign arrivals and squeezing domestic consumption.

Against this backdrop the sector has proven to be resilient, with the number of enterprises increasing, whilst earning lower average turnover. The sector is particularly important in employment terms, supporting over 8% of the Bulgarian workforce in 2010.

The impact of the economic downturn upon consumer trends can be witnessed in the significant shift in beer consumption from the on-trade to the off-trade, with the on-trade share falling from 33% in 2004 to 26% in 2011.

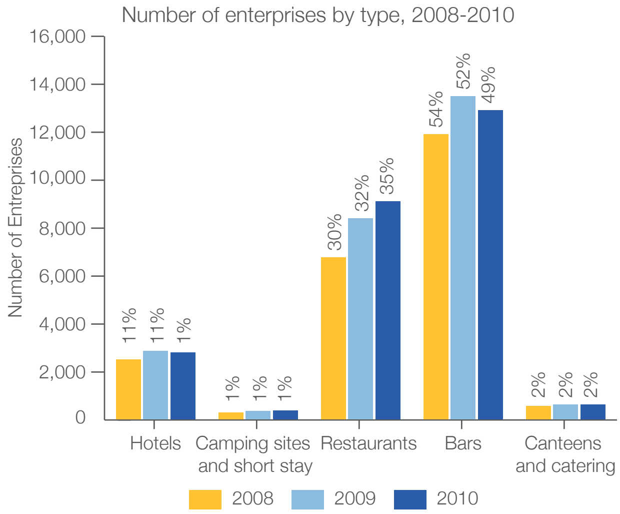
Turnover in the hospitality sector



Source: Eurostat

The growth in turnover within the hospitality sector has been particularly strong between 2003 and 2008, where the pressures of the global financial crisis impacted both domestic consumption and the number of foreign visitors. Whilst accommodation grew more strongly (than other hospitality sub-sectors) in the period to 2008, it suffered a greater decline in 2009, with turnover falling by over €50m in one year.

Enterprises in the hospitality sector

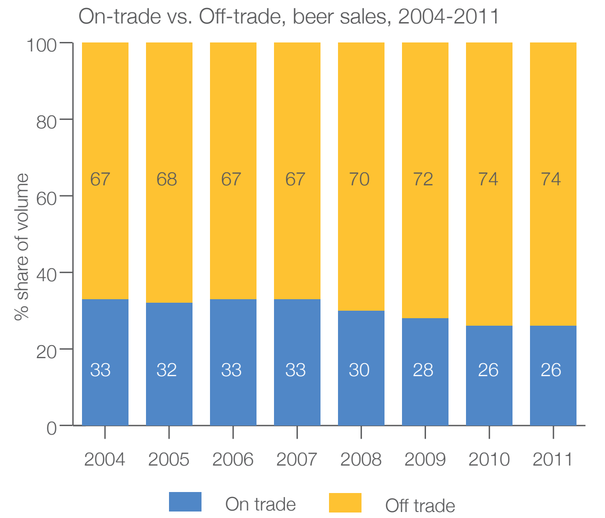


Source: Eurostat

Whilst total turnover fell for accommodation in 2009, the overall number of enterprises remained resilient, growing by almost 300 from 2008 to 2010. The expansion in the restaurant sub-sector has been particularly rapid, with over 2,400 additional restaurants in two years. Whilst the growth in enterprises shows welcome investment, it has placed pressure on average revenues per enterprise and likely profitability of many operations.

In 2010, hotels and restaurants accounted for 37% of the total hospitality sector turnover each (74% combined), with a further 19% provided by the bar sub-sector.

On-trade vs. Off-trade

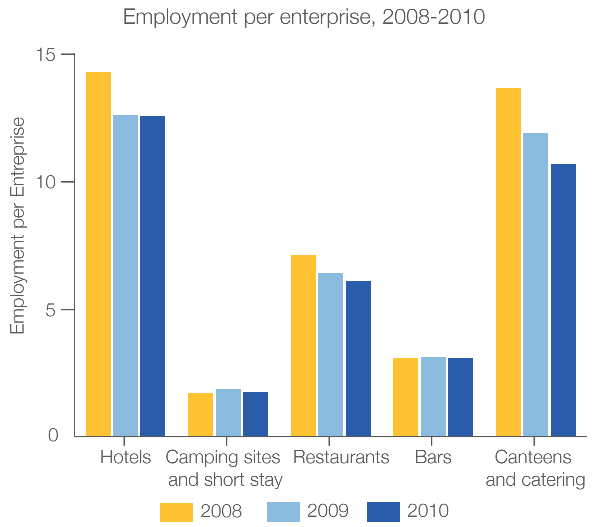


Source: The Brewers of Europe

As has been witnessed elsewhere across Europe, the impact of the global economic crisis can be seen through changing consumer buying patterns, with an increase in the proportion of beer sales (by volume) through the off-trade.

In 2004 around 33% of total beer sales were via the on-trade, by 2011 this had fallen to 26%, reducing the overall economic value of alcoholic beverage sales, as sales through the off-trade do not generate the same output and employment effects.

Employment in the hospitality sector



Source: Eurostat

As would be expected given the type of operation, hotels and larger catering enterprises employ the greatest number of people. It has been noticeable, however, that whilst the number of enterprises has increased the number of employees per enterprise has fallen during the period, reflecting the growing need to cut costs in the face of challenging demand conditions.

Enterprise Focus

BARS

With a total turnover of €279m in 2010 bars represent 19% of the total turnover for the hospitality sector. They are particularly significant when it comes to employment however, with almost 30% of the sector's total employees. This is due to the nature of the sub-sector, supporting a wide range of flexible work options to employees from a wide range of backgrounds and age groups.

RESTAURANTS

Against a difficult economic backdrop the restaurant sub-sector has performed relatively well, with a 35% increase in the number of establishments between 2008 and 2010. This corresponds to a 5% increase in overall turnover, 15% increase in employees and 23% increase in total wages paid.

HOTELS

The performance of hotels and accommodation through to 2010 is a wider reflection on trends across the Bulgarian economy. The growth in international tourism and domestic wealth led to rapid development in the number of hotel developments, with a 330% increase from 2000. Total turnover of €539m in 2010 represented 37% of the total for hospitality.

Amongst other trends, the growth in Low Cost Carrier airlines in the early 2000s opened up Bulgaria to a wider network of visitors, with particular growth on the Black Sea and Mountain resorts as well as increasing demand for high end hotels.

This stimulated further expansion in capacity, with the accession to the EU, and introduction of reduced VAT rates for hotels in 2007, expected to further support growth in the sub-sector.

This growth in capacity has to some extent been undermined by the global economic crisis, placing pressure on occupancy rates and operators margins, as competition for a tightening market places pressure on pricing.

Whilst 2010 has seen some stabilisation in overall performance, the wider economic environment continues to place pressure on hotels. The increase in the reduced VAT rate to 9% in 2011 alongside an increase in the maximum tourist tax rate places a further tax burden upon Bulgarian hotels and their customers.

Croatia

Croatia

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**6.8%**
Hospitality sector annual growth rate, 2008 - 2010 (nominal)	**-0.3%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts)

Output	**€4.9bn** (11.0% of the total)
GDP	**€2.3bn** (5.1% of the total)
Employment	**189,000** (12.7% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.12** is spent in the wider economy.

Key Messages

- The hospitality sector is a significant contributor to the Croatian economy, supporting 11% of total output and 12.7% of the total workforce.
- Croatia acceded to the EU in July 2013, and experience from elsewhere in the community suggests this should be positive for the sector, especially as output in the sector has not been noticeably affected by the 2008 downturn.
- Strong tourism growth over 2000-2010, should be supported by the VAT reduced rate applied to accommodation services. However we have also seen shift from on- to off-trade over 4 years from 2008 to 2011 of 8 percentage points. This partly explains a relatively low multiplier effect (€1.12 for every €1 spent), despite apparently important output and workforce contributions.

Summary

Croatia's economy is heavily reliant upon the hospitality sector, with total turnover supported by the sector representing 11% of the country's total output, the sixth highest in Europe. The wider economy is therefore particularly dependent upon wider economic trends across Europe and the squeeze in disposable incomes witnessed across its traditional visitor markets such as Germany and Italy. Visitor numbers were, however, relatively unaffected by the 2008 economic downturn and continued to increase through to 2010.

The hospitality sector in Croatia supports 12.7% of the total workforce. The continued resilience of tourism post 2008 and the accession of Croatia to the EU in July 2013 are likely to have positive implications for sector employment and national performance.

In 2005, the Stabilisation and Association Agreement with the European Union officially came into force, and Croatia advanced towards full EU membership in 2013. The country expects this to act as a significant boost to the economy, helping to close current high export deficits by easing access to trading partners.

Restaurants remained particularly resilient between 2008 and 2010, with turnover growing at an average annual rate of 0.8%, the number of employees increasing by 3.6% and a 3.5% increase in wages paid. Alongside this, hotels continued to contribute a large proportion of turnover to the sector (50%), following a continued increase in foreign visitors to Croatia. Whilst bars represent only 21% of turnover they account for 54% of enterprises in the sector, highlighting their importance to wider performance and employment.

The total turnover supported by the Croatia hospitality sector was €4.9bn in 2010. This equated to a value added to GDP of €2.3bn, 5.1% of the total. For every €1 spent by the sector, an additional €1.12 is spent in the supply chain and via employees' consumption. A total of 189,000 jobs are supported by the Croatian hospitality sector, representing almost 13% of the total workforce.

Economy Overview

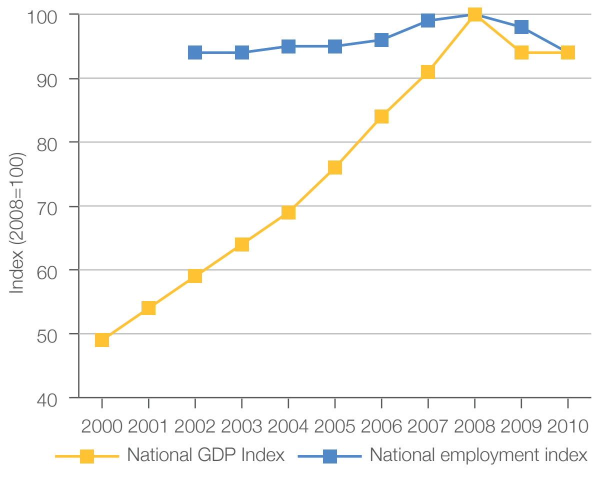
In nominal terms, the Croatian economy experienced rapid growth between 2000 and 2010 at an average of 6.8% per annum.

The Croatian economy is particularly dependent upon wider economic trends across Europe and the squeeze in disposable incomes witnessed across its traditional visitor markets such as Germany and Italy. Visitor numbers were resilient to the 2008 economic downturn and continued to increase through to 2010.

The hospitality sector in Croatia supports 12.7% of the total workforce, highlighting the significant role it plays in the wider economy. The continued resilience of tourism post 2008 and the accession of Croatia to the EU in July 2013 are likely to have positive implications for sector employment in the medium term.

In nominal terms, the Croatian economy experienced rapid growth between 2000 and 2010 at an average of 6.8% per annum, the eighth highest in Europe. Growth accelerated from 2000 following the introduction of a new government committed to economic reform. As an economy that is heavily interdependent on other EU economies such as Italy and Germany, Croatia's recovery will be partially dependent upon performance in these economies.

GDP (2000 – 2010) and national employment index (2002 – 2010)

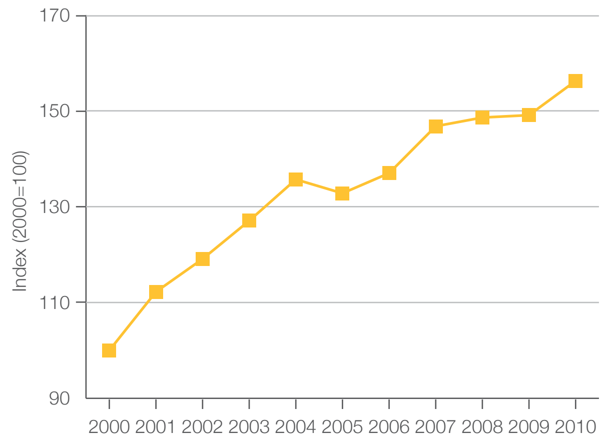


Source: Eurostat

Inflation in Croatia over the 2000 to 2010 period has grown at a compounded annual growth rate of 2.8%. Adjusting for inflation, average GDP growth over the period was 8.0%, and growth in the hospitality sector declined by 3.1% in real terms.

Despite the prominent role of the hospitality sector in the Croatian economy, employment has fallen within the sector, from around 97,000 in 2008 to over 96,000 in 2010. In 2010 the hospitality sector supported almost 13% of the total workforce in Croatia.

Tourism index, 2000-2010



Source: World Bank

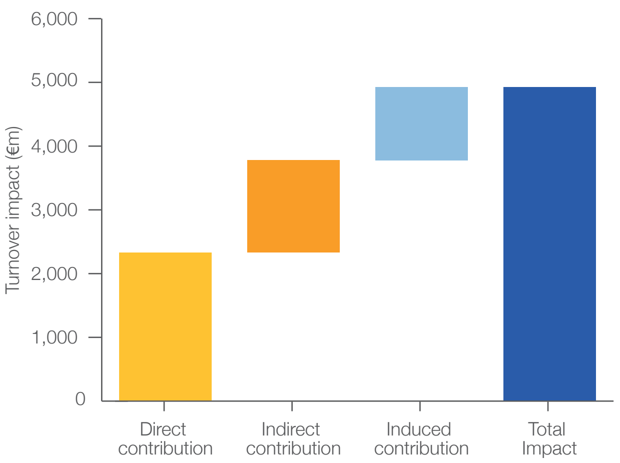
In Croatia, tourism is traditionally a notable source of income, particularly during the summer months in areas such as Dubrovnik and Split. More recently Croatia has seen increased demand from tourists for sports such as skiing during the winter months.

Over the course of the whole 2000-2010 period tourism grew by an average annual rate of 4.6%.

Economic Contribution of the hospitality sector

The total turnover supported by the Croatian hospitality sector is almost €5bn, 11% of total output. This equates to a value added to GDP of €2.3bn, 5.1% of the total. For every €1 spent by the sector, an additional €1.12 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of 189,000 jobs were supported by the Croatian hospitality sector in 2010, representing almost 13% of the total workforce.

Turnover of the hospitality sector, 2010

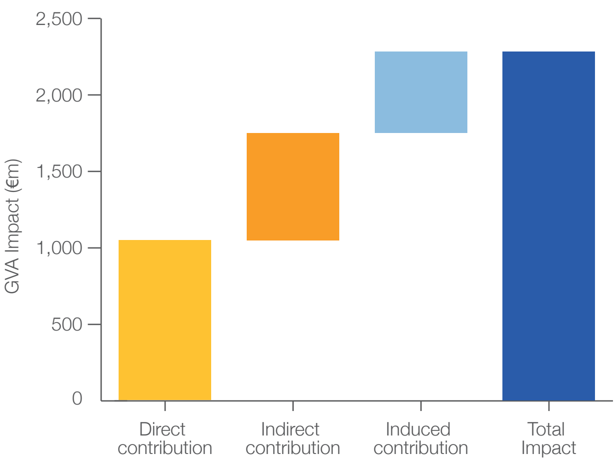


Source: Eurostat, EY calculations

Total turnover supported by the hospitality sector was €4.9bn in 2010, which equates to approximately 11% of total output. This reflects the relative importance of tourism, and thus hospitality, to the Croatian economy.

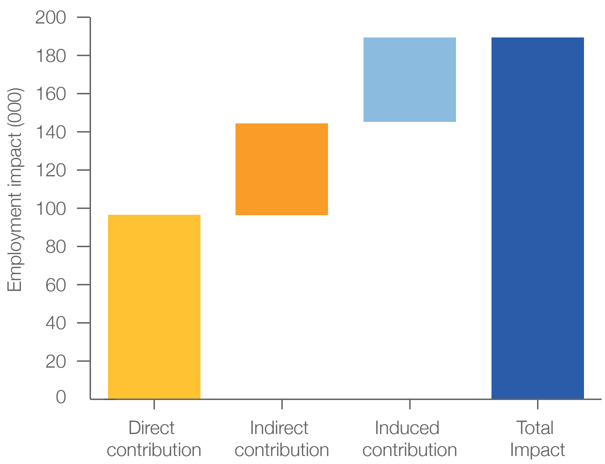
Croatia's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.63, meaning that for every €1 spent by the hospitality sector an additional €0.63 of demand is generated in its supply chain. The indirect contribution of the hospitality supply chain is above the European average, whilst the induced effect is the ninth highest, suggesting that the relative wages and density of employment are high and of greater relative importance to wider economic performance than in other countries.

GDP impact of hospitality sector, 2010



The value added to Croatian GDP allows a comparison of how important the hospitality sector is in terms of the specific value added to the economy, and the relative importance of imports to the supply chain. In 2010 the hospitality sector contributed €2.3bn to national GDP, representing 5.1% of the total.

Employment impact of the hospitality sector, 2010



The sector supports over an eighth of the total workforce in Croatia, with 96,000 people directly employed and a further 48,000 in the supply chain with another 45,000 jobs supported through employees' expenditure on other goods and services.

Regulation / Taxation

Operators in the hospitality sector in Croatia typically face a range of point of sale taxes (VAT, tourism tax) as well as corporate, employment and local municipal taxes. VAT in Croatia has been at a standard rate of 25% since 2012 (where it was 23%), with reduced rates of 10% only applied to accommodation within the hospitality sector.

From the beginning of 2013 the government has applied the reduced rate of VAT to certain services in the gastronomy industry, including food, non-alcoholic drinks, as well as beer and wine. In addition to an increase in the reduced rate, the maximum tourism tax (levied per night stay) has increased from around €0.25 to €1.00.

In 2009, the smoking ban on hospitals, schools and nurseries was expanded to include all enclosed public places including bars, restaurants and cafés. Between 2009 and 2010, the ban was partially repealed; establishments up to 50 square metres respecting strict conditions were allowed to choose to allow tobacco consumption.

Excise Duty

The excise duty applied on beer is HRK 40 per % abv per hl, as of 2013. Wine is zero rated and spirits are subject to a duty of HRK 5,300 per hl pure alcohol.

VAT and Reduced rates

The standard VAT rate in Croatia is set at 25%, rising by two percentage points at the beginning of 2012. However hotels, a part of the hospitality sector, are subject to a reduced VAT rate of 10%. VAT applied to alcoholic beverages is high by European standards, with only Hungary implementing a higher VAT rate by two percentage points.

From the beginning of 2013 the government has applied the reduced rate of VAT to certain services in the gastronomy industry, including food, non-alcoholic drinks, as well as beer and wine. This is to increase the competitiveness of Croatia’s hospitality sector in line with their accession to the EU in July 2013.

Other taxes

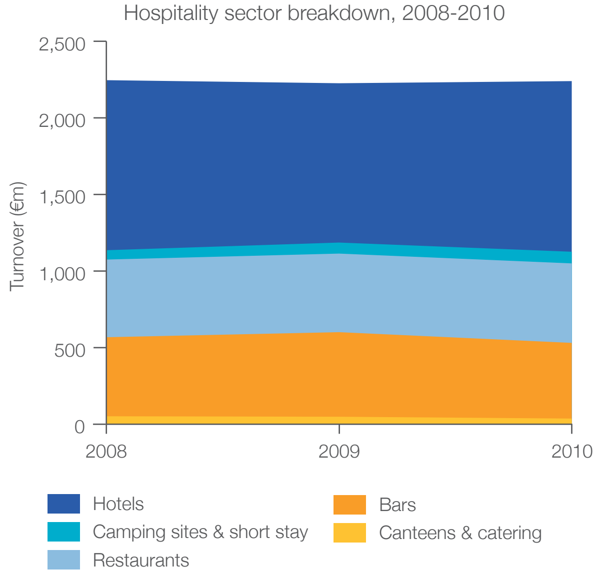
Hotels and other accommodation business are required to levy a tourist accommodation tax known as “Sojourn Tax” on overnight visitors. The actual amount levied per night is determined by categories and seasons but the overall range is defined. This is between €0.25 (2.00 KN) and €1.00 (7.00 KN) depending upon the category of establishment and season.

Hospitality sector in focus

The hospitality sector represents an important part of the Croatian economy, with direct turnover of €2.3bn and direct employment of over 90,000 individuals. The historic growth of the sector has helped to stimulate the wider economy and has remained resilient despite economic downturns across key visitor markets such as Italy and Germany.

Restaurants remained particularly resilient between 2008 and 2010, with turnover growing at an average annual rate of 0.8%, the number of employees increasing by 3.6% and a 3.5% increase in wages paid. Alongside this, hotels continued to contribute a large proportion of turnover to the sector (almost 50%), following a continued increase in foreign visitors to Croatia. Whilst bars represent only 21% of turnover they account for 54% of enterprises in the sector, highlighting their importance to wider performance and employment.

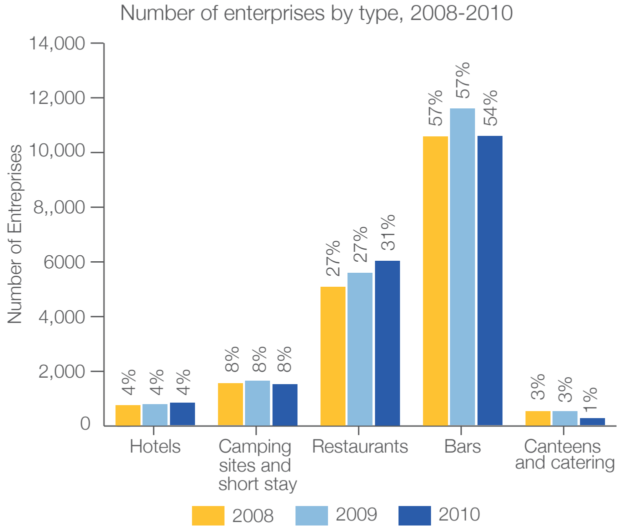
Turnover in the hospitality sector



Source: Eurostat

Despite the economic crisis in 2008, the number of foreign visitors to Croatia has continued to increase, ensuring turnover in the hospitality sector has remained relatively flat between 2008 and 2010. While accommodation grew more strongly (than other hospitality sub-sectors) in these three years, it still only grew by an average annual rate of 0.1%.

Enterprises in the hospitality sector



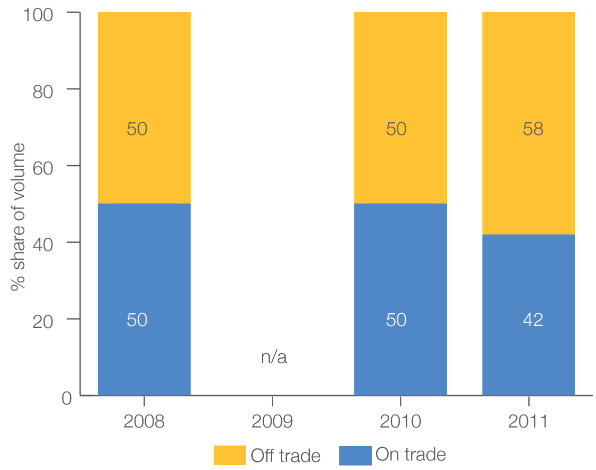
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Both restaurants and bars experienced growth in the number of enterprises post 2008, in line with marginal growth in these sub-sectors. On the other hand, bars suffered a prominent reduction in enterprises in 2010, falling to 2008 levels and entirely negating the extra 1,000 enterprises opened in 2009.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011

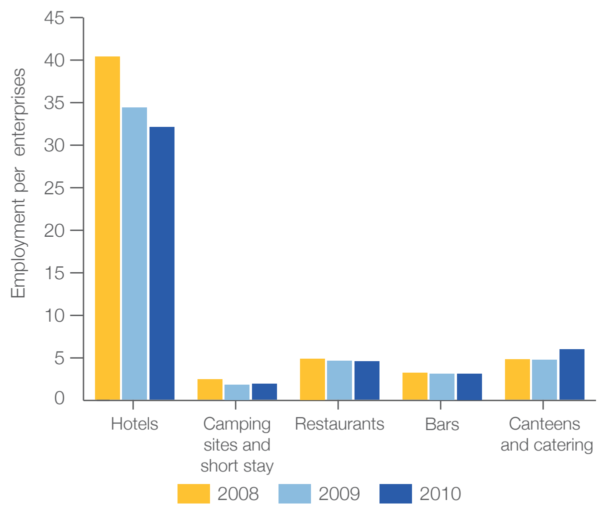


Source: The Brewers of Europe

The proportion of beer in the on-trade remained relatively high in Croatia through to 2011, where it fell from 50% to 42%. This reflects continued pressure on consumer spending and the associated shift in consumption patterns.

Employment in the hospitality sector

Employment per enterprise, 2008-2010



Source: Eurostat

As would be expected given the type of operation, hotels and larger catering enterprises employ the greatest number of people. It has been noticeable, however, whilst the number of enterprises has increased, the number of employees per enterprise has fallen during the period, reflecting the growing need to cut costs in the face of challenging demand conditions. This decrease is particularly prominent in hotels.

Enterprise Focus

BARS

With a total turnover of €494m in 2010 bars represent 21% of the total turnover for the hospitality sector. They are particularly significant when it comes to employment however, with almost 35% of the sector's total employees. This is due to the nature of the sub-sector, supporting a wide range of flexible work options for employees.

RESTAURANTS

Against a difficult economic backdrop the restaurant sub-sector has performed relatively well, with a 6% increase in the number of establishments between 2008 and 2010. This corresponds to a 0.8% increase in overall turnover, 3.6% increase in employees and 3.5% increase in total wages paid.

HOTELS

The performance of hotels and accommodation through to 2010 is a wider reflection of trends across the Croatian economy. The growth in international tourism and domestic wealth led to rapid development in the number of hotel developments. Total turnover of €1.1bn in 2010 represented almost 50% of the total for hospitality.

Amongst other trends, the growth in Low Cost Carrier airlines in the early 2000s opened up Croatia to a wider network of visitors, with particular growth in Dubrovnik and Split as well as increasing demand for winter resorts.

This stimulated further expansion in capacity, with the accession to the EU and introduction of reduced VAT rates for food and beverages in 2013, expected to further support growth in the sub-sector.

This growth in capacity has to some extent been undermined by the global economic crisis, placing pressure on occupancy rates and operators margins, as competition for a tightening market places pressure on pricing.

Cyprus

Cyprus

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)		**5.8%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)		**2.3%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€3.5bn** (20.3% of the total)
GDP	**€1.8bn** (10.4% of the total)
Employment	**115,000** (30.9% of the total)

Total tax contribution of hospitality	**€200m**
Excise	**€14m** (7.0% of the total)
VAT	**€135m** (67.0% of the total)
Employment	**€52m** (26.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.94** is spent in the wider economy.

Key Messages

- The hospitality sector underperformed the wider economy more generally, with average annual turnover growth of 2.3% compared to 5.8% GDP growth. This largely reflects the already mature nature of the sector and increasing competition across Europe and elsewhere for international tourists.
- The importance of the hospitality sector to the Cypriot economy is reflected in the high proportion of jobs it supports throughout the economy; at almost 31% this is the highest proportion in Europe.
- The sector was particularly impacted by the economic downturn, especially in bars with a reduction of overall turnover of 22%, a 41% fall in number of enterprises (1.3 bars a day closing over the period) and 25% loss of jobs. Restaurants and hotels seem to have proven more resilient, with 1% and 8% reductions in turnover respectively.

Summary

Cyprus's economy is heavily reliant upon tourism, and therefore, the hospitality sector. Total turnover supported by the hospitality sector represented over 20% of the country's total output in 2010. In some respects this makes Cyprus particularly dependent upon wider economic trends across Europe and the squeeze in disposable incomes witnessed across its traditional visitor markets. The 2008 economic downturn resulted in a 10% reduction in overall visitors by 2010, with the existing Eurozone crisis potentially adding further to the difficult environment in which the hospitality sector is operating.

Of all European countries assessed, the hospitality sector in Cyprus employs the highest percentage of the total workforce (if all jobs supported by the sector are included this is over 30%). Whilst this provides flexible and diverse employment for the country's residents it also makes total employment sensitive to changes in tourist demand. The effect of seasonality of demand also impacts overall employment levels, with high demand in the summer and lower troughs in the winter.

The presence of reduced rates of VAT for the vast majority of the hospitality sector's activities reflects the wider importance of the sector to the performance of the economy and levels of employment. Future uncertainty on the island may pose future risks to existing tax levels and therefore the wider ability of the sector to compete for international tourists.

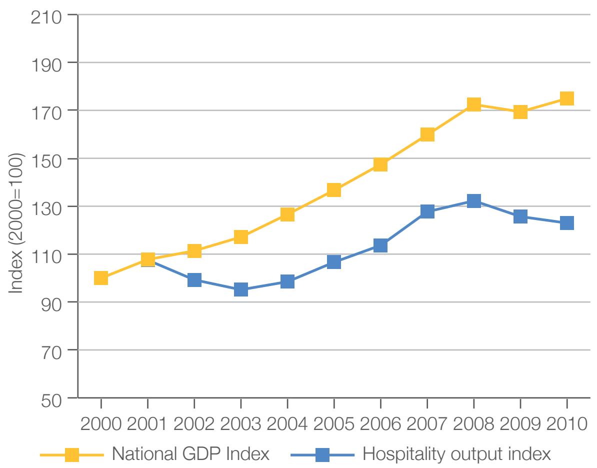
The bar sub-sector has been particularly impacted by the downturn since 2008, with a reduction in overall turnover of 22%, a fall in the number of enterprises of nearly 1,000 (41%) and drop in employment of 25%. Alongside a reduction in total tourism this can also be attributed to the increase in all inclusive package holidays. These may incentivise tourists to stay within their resorts and therefore reduce spending elsewhere on the Island.

Economy Overview

Cyprus's economy is heavily reliant upon the hospitality sector, with total turnover supported by the sector representing over 20% of the country's total output. This makes the wider economy particularly dependent upon wider economic trends across Europe and the squeeze in disposable incomes witnessed across its traditional visitor markets. The 2008 economic downturn resulted in a 10% reduction in overall visitors by 2010, with the existing Eurozone crisis potentially adding further to the difficult environment in which the hospitality sector is operating.

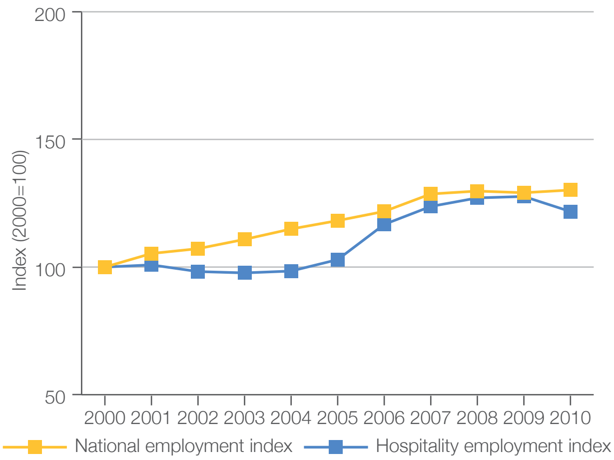
Of all European countries assessed, the hospitality sector in Cyprus employs the highest percentage of the total workforce. The fall in tourism post 2008 and subsequent job losses has implications, therefore, for sector employment and national performance.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

From 2000 to 2008 Cyprus enjoyed a consistent growth in nominal GDP, before entering recession following the wider European downturn and subsequent impact upon tourism in Cyprus. The links between tourism and the wider economy are clear with total related turnover representing over 20% of economic output.

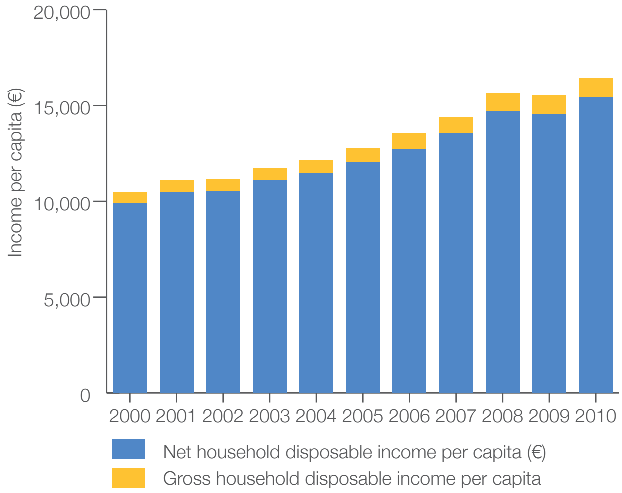
The 2012/13 Euro-crisis may provide significant challenges to the wider competitive environment that Cyprus is operating in from an international tourism perspective.

Inflation in Cyprus over the 2000 to 2010 period has grown at a compounded annual growth rate of 2.4%. Adjusting for inflation, average GDP growth over the period was 3.4%, and growth in the hospitality sector declined by 0.3% in real terms.

Overall employment supported by the hospitality sector is estimated at over 30% of the total active workforce, ranking first across Europe with respect to the sector's contribution to national employment levels. In 2010 the sector supported around 115,000 jobs, with 40,000 of these directly employed by the sector.

Any variance in the sector's performance is therefore keenly felt across the workforce, with knock-on effects to wider support industries.

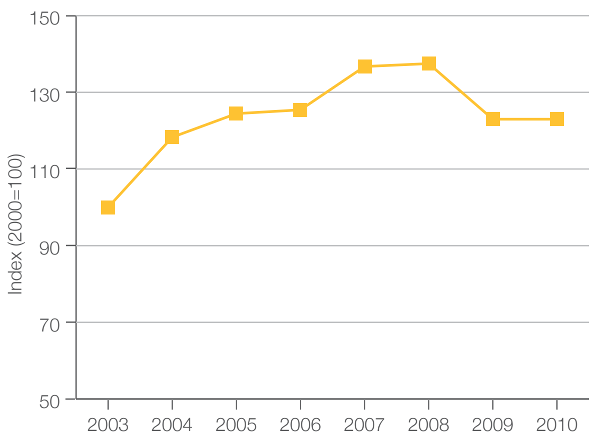
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Real disposable income grew across the period but fell under greater pressure following 2008, with the current Euro-crisis and resulting austerity measures placing a risk upon future incomes and domestic consumption.

Tourism index, 2003-2010



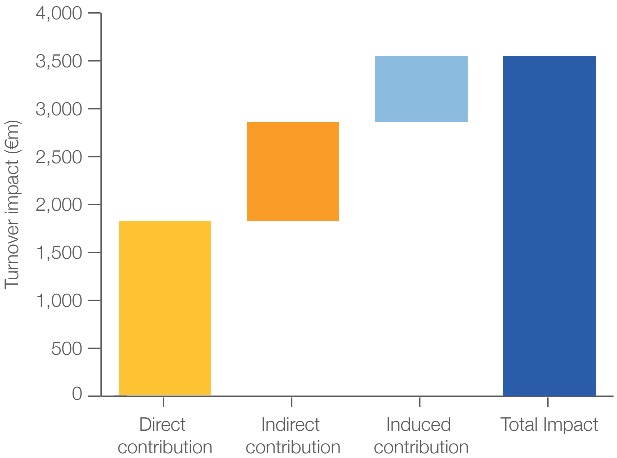
Source: Eurostat

Over the course of the whole 2003-2010 period tourism grew by an average annual rate of 3%. The downturn of 2008 resulted in a fall in overall visitors of around 10% by the end of 2010. The makeup of tourism on the island has changed to some degree, with an increasing trend towards all-inclusive packages. Whilst these may be attractive to consumers, this trend creates real challenges for the hospitality sector, as visitors tend to spend a larger proportion of their time in one place.

Economic Contribution of the hospitality sector

In 2010, the Cypriot hospitality sector supported turnover of €3.5bn, 20.3% of total output, which is the highest proportion relative to the rest of Europe. This equates to a value added to GDP of €1.8bn, 10.4% of the total. For every €1 spent by the sector, an additional €0.94 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of 115,000 jobs are supported by the Cypriot hospitality sector, representing over 30% of the total workforce.

Turnover hospitality sector, 2010



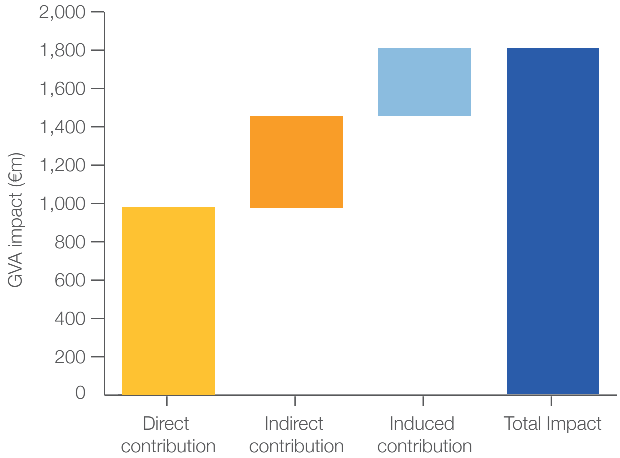
Source: Eurostat, EY calculations

The total hospitality related turnover is estimated at €3.5bn in 2010; over 20% of total output.

Cyprus' indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.57, meaning that for every €1 spent by the hospitality sector an additional €0.57 of demand is generated in its supply chain.

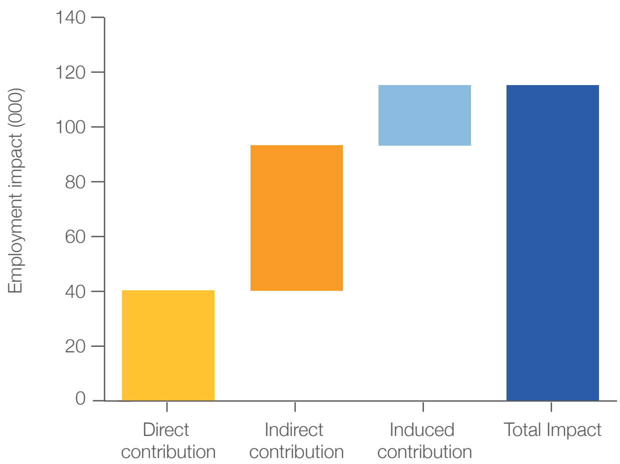
Whilst the hospitality sector has a particularly large direct contribution to the Cypriot economy, the indirect impact upon the supply chains is relatively low when compared with other European countries. This is largely to be expected, as given the geography and natural resources of Cyprus, it must import a significant proportion of the respective produce used as inputs.

GDP impact of the hospitality sector, 2010



As with turnover, the value added multipliers are relatively low for Cyprus, reflecting the nature of supply chains and labour markets. Total contribution to GDP is estimated at €1.8bn or 10.4% of the total.

Employment impact of the hospitality sector, 2010



The sector supports over 30% of the total workforce in Cyprus, with over 40,000 people directly employed and a further 52,000 in the supply chain with another 23,000 jobs supported through employees' expenditure on other goods and services.

Regulation / Taxation

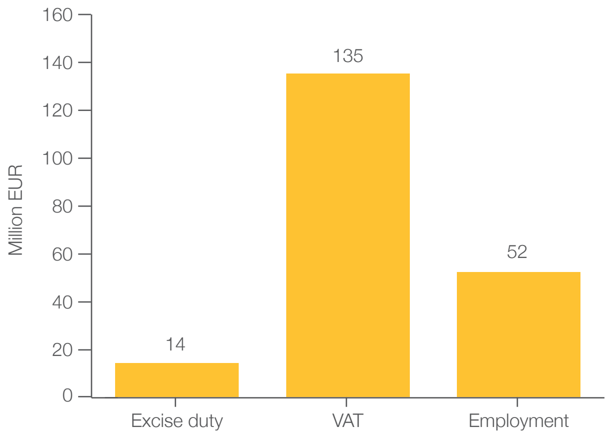
The presence of reduced rates of VAT (at 8%) for the vast majority of the hospitality sector's activities reflects the wider importance of the sector to the performance of the economy and levels of employment. Indeed, Cyprus has one of the lowest VAT regimes for the hospitality sector in Europe. Excise duties on beer and spirits were increase by 25% and 60% respectively in 2013, whilst wine remains zero rated.

Future uncertainty on the island may pose future risks to existing tax levels and therefore the wider ability of the sector to compete for international tourists.

Tax Receipts

As a large contributor to the economy, the Cypriot hospitality sector generates tax returns for government in a range of ways, including corporation tax on profits, employment taxes, VAT, excise duties and license fees.

In excise duty, gross VAT receipts (VAT deductions are not accounted for) and employment taxes (employee and employer contributions) alone, the hospitality sector directly contributed around €200m in tax receipts in 2010. The level of VAT as a proportion of total tax take is particularly high in Cyprus (67%).



Source: EY calculations

Excise Duty

In 2008, excise duty on both beer and spirits was reduced marginally. In 2013 it was increased to €6 per hl per degree of alcohol of final product for beer and to €957 per hl pure alcohol for spirits. Throughout the same period wine has remained zero rated.

VAT and Reduced rates

The standard VAT rate in Cyprus is set at 15%. The hospitality sector is, however, subject to a reduced VAT rate of 8%. This applies to accommodation, food and drink (non-alcoholic only) served in hotels, bars and cafés. Takeaway and delivery outlets receive a reduced rate of 5% on food but do not receive a reduced rate for any drink sales. The standard rate of VAT in Cyprus is low in comparison to the European average (21%).

Other taxes

Whilst there are currently no specific tourist or terrace taxes in Cyprus a proposal has been raised by government to reform the calculation of property taxes, something which would significantly impact the overall tax burden on hoteliers and potentially impact overall competitiveness.

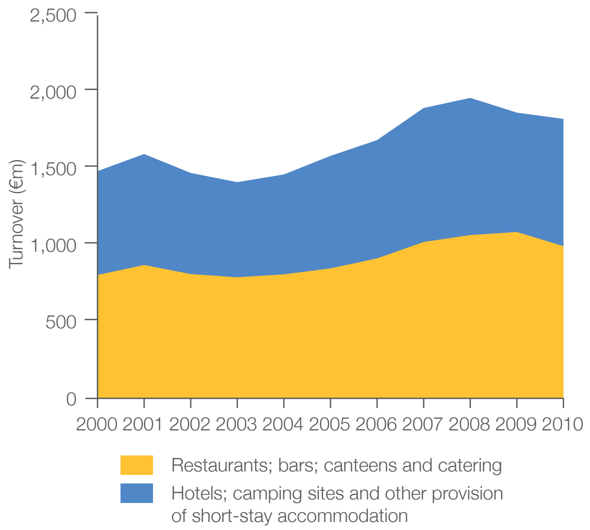
Hospitality sector in focus

The hospitality sector is especially significant to the Cypriot economy, with direct turnover of €1.82bn and direct employment of over 40,000 individuals. Whilst the historic growth of the sector has helped to stimulate the wider economy it has also been sensitive to economic downturns across key visitor markets, which has reduced overall tourist visits and their associated spend in hotels, restaurants and bars / cafés.

The bar sub-sector has been particularly impacted, with a reduction in overall turnover of 22%, a fall in the number of enterprises of 41% (almost 1,000) and drop in employment of 25% (a loss of 1,900 jobs). Alongside a reduction in total tourism this can also be attributed to the increase in all inclusive package holidays. These incentivise tourists to stay within their resorts and therefore reduce spending elsewhere on the Island.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010



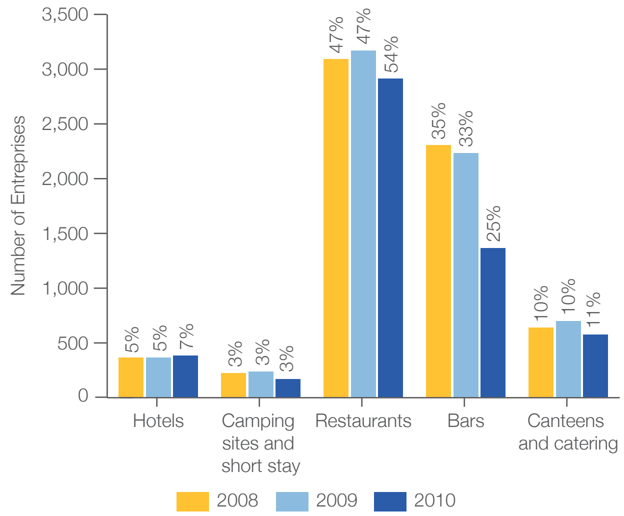
Source: Eurostat

Overall turnover in the sector has grown at an average annual rate of 2.3%, reaching a peak of €1.95bn in 2008 before falling to €1.82bn in 2010. From a turnover perspective, accommodation represents around 45% of the total with restaurants, bars and other catering accounting for 55% in 2010.

Since 2008 the bar sub-sector has been particularly impacted, with total turnover down by 22% by the end of 2010. For restaurants the corresponding fall was 1%, and for hotels this was an 8% reduction.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



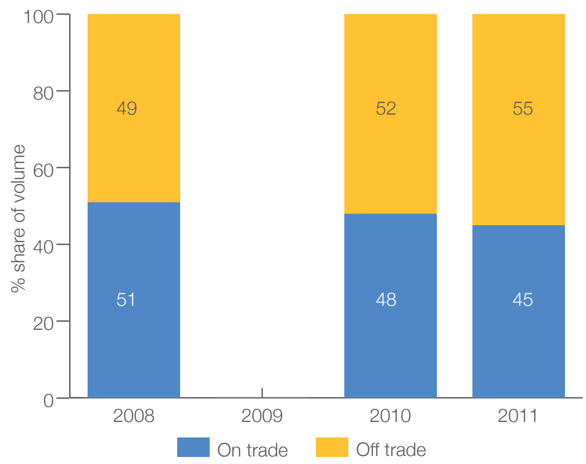
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Other than for hotels, the post 2008 period has largely been defined by a marginal recovery in 2009 followed by a greater reduction in the overall number of enterprises in 2010. The reduction is particularly prominent in the bar sub-sector, where in net terms, 938 bars have closed in two years; this equates to almost 1.3 bars a day.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011



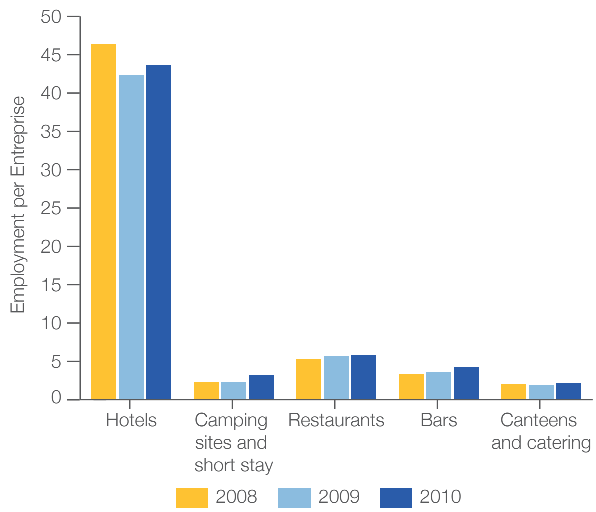
Source: The Brewers of Europe

As with most European markets, the proportion of total beer sales (by volume) accounted for by the on-trade has fallen since 2008, from 51% to 45% in 2011. This has placed increasing pressure upon the bar sub-sector, reflected in the fall in output, enterprise numbers and employment.

Employment in the hospitality sector

Total employment in the hospitality sector increased significantly between 2000 and 2008 but has since suffered from the economic downturn, changes in the tourist market and wider competitive pressures.

Employment per enterprise, 2008-2010



Source: Eurostat

Since 2008 total employment levels in the sector have fallen by 4%; in the bar sub-sector the corresponding figure is a 25% reduction.

Enterprise Focus

BARS

As has been highlighted in this section, the post 2008 period has been challenging for bar operators. Overall turnover in 2010 is 22% down and employment levels 25% down on 2008 levels. The total number of enterprises has fallen from over 7,500 to just over 5,600.

In recent years there has been a significant shift in the way in which tourists are buying their holidays. Tour operators are increasingly offering tourist all inclusive packages, which combine accommodation, meals and drinks within one price. Whilst in some respects this has provided a valuable choice to consumers by giving them some certainty over their holiday expense, it also has significant implications for the hospitality sector generally in Cyprus.

As tourists increasingly stay at all-inclusive resorts they do not visit different areas or spend as much money at different bars and restaurants as they might have otherwise. This results in a greater concentration of spend in fewer enterprises, and places pressure on independent service providers.

RESTAURANTS

Whilst restaurants have not been as impacted as bars post 2008, there has still been a 1% reduction in turnover and a net loss of around 180 enterprises (7.5 a month on average) by 2010.

HOTELS

The total number of hotels has remained relatively stable in Cyprus since 2008, with a net loss of only 4. However, in the same period turnover has fallen by 8% suggesting that operators are facing increasing pressure on margin.

Czech Republic

Czech Republic

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**9.2%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**8.2%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€12.7bn** (8.4% of the total)
GDP	**€4.6bn** (3.1% of the total)
Employment	**306,000** (6.4% of the total)
Total tax contribution of hospitality	**€2.3bn**
Excise	**€0.9bn** (40.0% of the total)
VAT	**€0.8bn** (36.0% of the total)
Employment	**€0.5bn** (24.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.57** is spent in the wider economy.

Key Messages

- The hospitality sector has become an important and vibrant part of the Czech economy, supporting 306,000 jobs in 2010.
- Following four years of exceptional growth through to 2008, the hospitality sector turnover fell by 17% by the end of 2010, highlighting the challenges it faces.
- Recent increases in VAT and excise duties may further hamper the ability of the sector to rebound, contributing to a fall in the proportion of beer sold in the on-trade and the associated employment and tax receipts.

Summary

The Czech Republic experienced the fourth highest growth rate across Europe between 2000 and 2010, at an average annual rate of 9.2% in nominal terms. This growth was largely concentrated in the 2004-2008 period, which saw rapid expansion in a range of Czech industries (including hospitality), stimulated by the entry to the EU and the trading opportunities that presented. With an economy that is heavily dependent upon success in wider Europe to drive demand for its exports, the expected return to growth across the Eurozone underpins expected growth of 2% - 4.5% per annum in the Czech Republic between 2014 and 2017.

The point of sale tax burden for the hospitality sector is rising, with a 1 percentage point increase in the standard and reduced rates of VAT as of January 2013. The move towards a single VAT rate of 17.5% in 2016 will have negative implications for hotels (which currently receive the reduced rate) but will be welcomed by other hospitality operators and consumers. Excise duty applied to beer and spirits was increased in 2010 by 33% and 8% respectively.

The hospitality sector is dominated by restaurants and hotels, representing 63% and 25% of total turnover respectively. The performance of these two sub-sectors has generally reflected the wider economic environment, with downward pressure on incomes and employment over the last few years creating a more intensely competitive market.

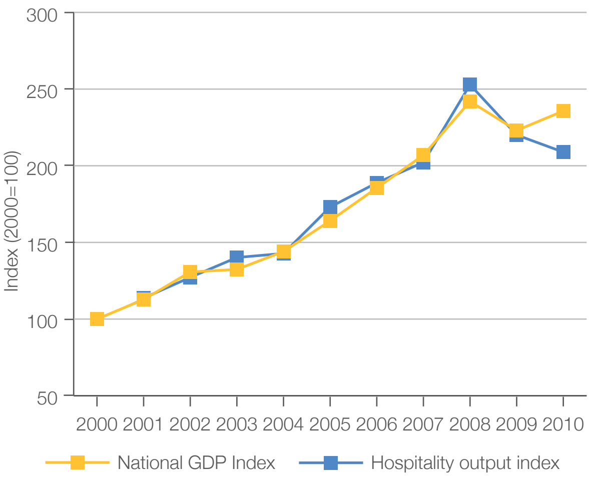
Whilst overall turnover in restaurants fell between 2008 and 2010, the sub-sector has proven to be relatively resilient. Despite this resilience, the increase in the standard VAT rate in 2013 may be unwelcome for operators, who are seeing average revenues fall. Under pressure from lower levels of occupancy rates in 2009 and 2010 the hotel sub-sector has recovered to above 2008 levels in 2011.

Economy Overview

The Czech Republic experienced the fourth highest growth rate across Europe between 2000 and 2010, at an annual rate averaging 9% per annum in nominal terms. This largely reflects the 2004-2008 period, which saw rapid expansion in a range of Czech industries (including hospitality), stimulated by the entry to the EU and the trading opportunities that presented.

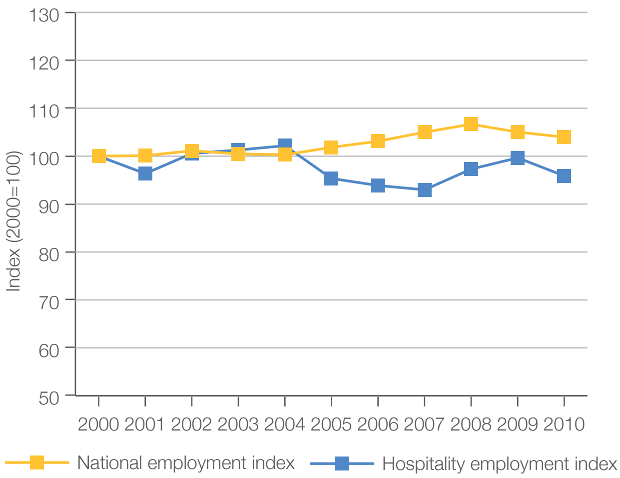
With an economy that is heavily dependent upon success in wider Europe to drive demand for its exports, the current Eurozone crisis places some risk to the recovery out of recession which began in 2009. The expected return to modest growth across the Eurozone from 2014 will be welcome to the Czech economy and is reflected in recent GDP forecasts for the country, with real growth of 2% - 4.5% expected between 2014 and 2017.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

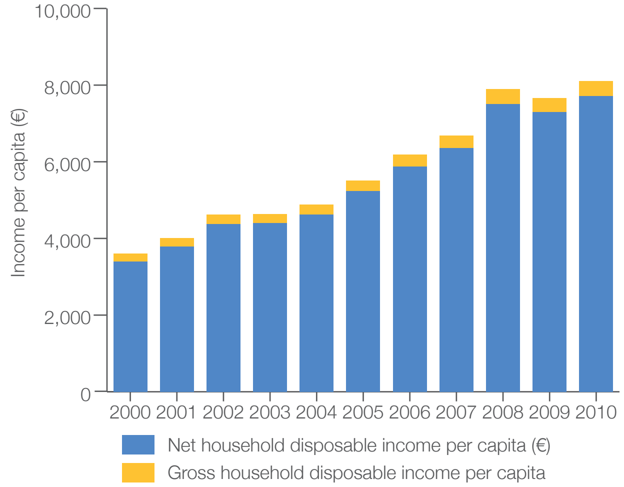
The Czech economy grew at the fourth highest rate in Europe between 2000 and 2010 to over €150bn by the end of the period. The economy experienced accelerating growth post 2004 as the country joined an expanding EU. Joining the EU opened up key markets for Czech manufacturing, where relatively low labour costs and a central geographic position, have helped to boost trade, increase incomes and develop tourism potential.

The sharp recession in 2009 demonstrates the country's reliance on strong European markets and demand for key exports in particular.

Inflation in the Czech economy over the 2000 to 2010 period has grown at a compounded rate of 2.5%. Adjusting for inflation, average GDP growth over the period was 6.5%, and growth in the hospitality sector was 5.1% in real terms.

Whilst overall the hospitality sector output has moved in line with wider economic growth, this is not reflected in overall employment levels in the sector. Despite the expansion of the hospitality sector, between 2004 and 2008 in particular, there was no corresponding rise in employment. This suggests that the productivity of labour within the sector was improving, delivering greater output (from a monetary perspective) for the same level of input.

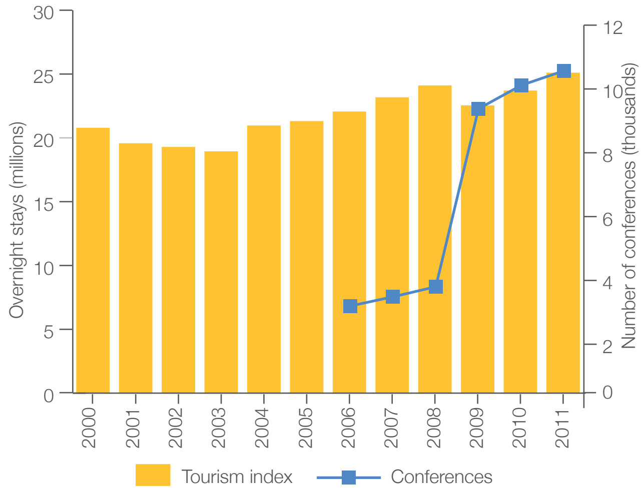
Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

In a country of the size of the Czech Republic, the hospitality sector, covering a wide range of services and operator types, is dependent upon domestic consumption as well as international tourism. The entry to the EU in 2004 was followed by a significant increase in disposable income, with net disposable income growing by 67% by the end of 2010. The impact of the current Eurozone crisis and other austerity measures in the Czech Republic may place greater pressure on disposable incomes going forward, as overall tax burdens increase and pressure on income levels remains.

Overnight stays, 2000-2011



Source: Czech Statistical Office

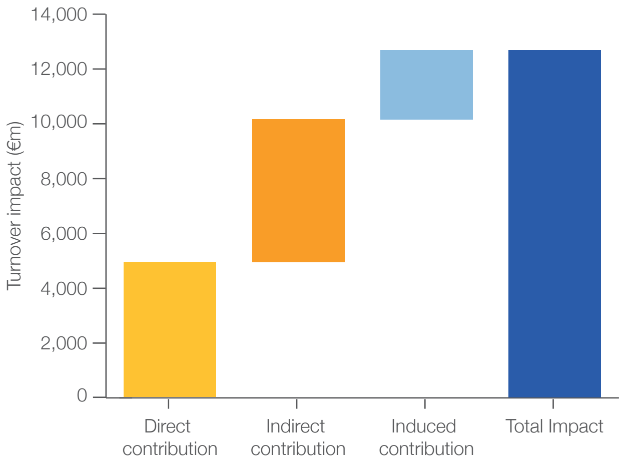
Between 2000 and 2011 overnight stays in the Czech Republic grew by around 28% to 25m per annum. Of particular importance is the fact that much of this growth has come at the 5 star and 4 star hotel level, which experienced a 116% and 211% increase in the period respectively (whilst other hotels have experienced a 20% fall). The number of conferences being held in hotels has also grown significantly – increasing by 254% between 2006 and 2011.

Economic Contribution of the hospitality sector

The total turnover supported by the Czech hospitality sector is €12.7bn, 8.4% of total output. This equates to a value added to GDP of €4.6bn, 3.1% of the total. In 2010 a total of 306,000 jobs were supported by the Czech hospitality sector, representing over 6% of the total workforce.

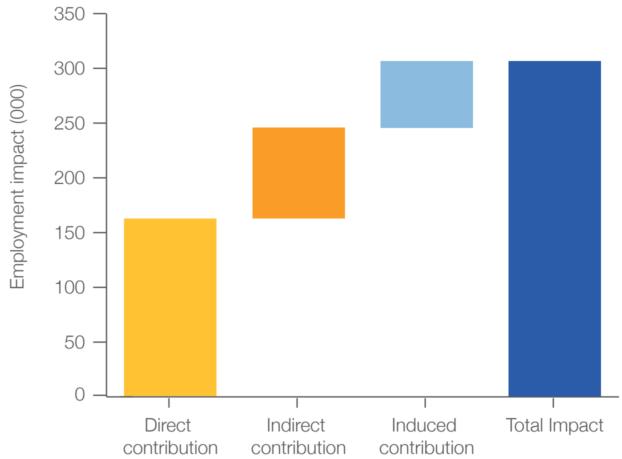
For every €1 spent by the sector, an additional €1.57 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

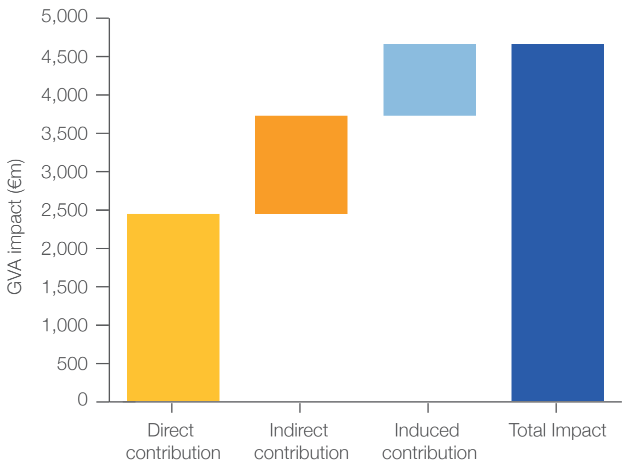
Employment impact of the hospitality sector, 2010



The total turnover supported by the hospitality sector is €12.7bn, which equates to approximately 8.4% of total output. Of this, €4.9bn is directly contributed by the hospitality sector.

The Czech Republic has the highest indirect contribution (with an indirect turnover multiplier of 2.06 meaning that for every €1 spent in the sector an additional €1.06 is spent in the supply chain alone, thus not including the induced impact) in Europe due to the large domestic contribution to the supply chain. This highlights the sector's importance for wider economic performance through its ability to leverage domestic production.

GDP impact of hospitality sector, 2010



The total GVA of the hospitality sector is estimated at €4.6bn, or 3.1% of GDP.

In total, the hospitality sector directly employs or supports over 306,000 jobs, representing 6.4% of the workforce. The induced impact of the hospitality sector (i.e. the impact of employees spending their wages on other goods and services) is relatively large in comparison to other European countries (ranked 7th).

Regulation / Taxation

The point of sale tax burden for the hospitality sector is rising, with a 1 percentage point increase in the standard and reduced rates of VAT as of January 2013. The move towards a single VAT rate of 17.5% in 2016 will have negative implications for hotels (which currently receive the reduced rate) but will be welcomed by other hospitality operators and consumers as a whole.

Excise duty applied to beer and spirits was increased in 2010 by 33% and 8% respectively. Wine is currently zero rated.

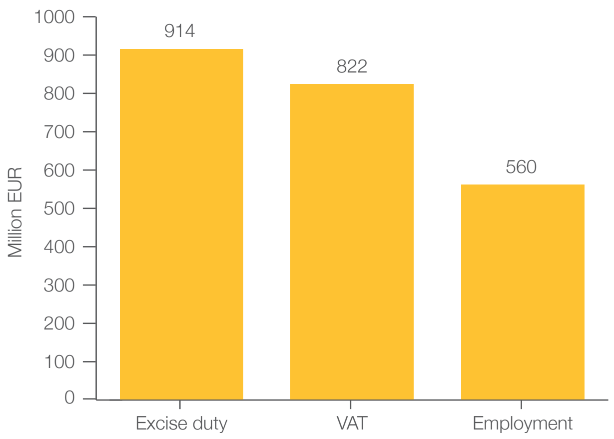
The Czech Republic does not currently have a full indoor smoking ban for bars and restaurants. In 2010, restrictions were put in place to ensure that operators enclosed smoking areas within premises, incurring significant costs for many to adapt the physical layout and facilities. At present there is a move towards a full smoking ban in bars and restaurants for 2014, which may place further pressure on demand in the sector and add additional costs to operators.

Tax Receipts

As a growing and successful part of the economy, the Czech hospitality sector generates tax returns for governments in a range of ways, including corporation tax on profits, employment taxes, VAT, excise duties and license fees.

In excise duty, gross VAT receipts[1] and employment taxes (employee and employer contributions) alone, the hospitality sector directly contributed around €2.3bn in tax receipts in 2010. The level of excise duties as a proportion of the total tax take is particularly high in the Czech Republic.

Tax receipts by type, 2010



Source: EY calculations

Excise Duty

In 2010, duty on beer was increased by 33% to CZK 32 per °Plato / hl and has remained unchanged since. At the same time there was an 8% increase in the duty applied to spirits, up to CZK 28,500 /hl pure alcohol. Wine is zero rated.

A large rise in beer duty has a big impact upon the bar and café sub-sectors which sell a higher proportion of beer than wine or spirits. Taken with an increase in VAT in 2013, this is likely to have significantly impacted the affordability of the on-trade sector for consumers.

VAT and Reduced rates

The standard rate of VAT in the Czech Republic is 21%, increased by one percentage point as of January 2013. The corresponding reduced rate was increased from 14% to 15% (this compares with a reduced rate of 10% prior to 2012). The government argued that the hike is crucial to its plan to reduce the fiscal deficit to 3% of GDP and ensure that the markets do not lose faith in the country. The increase has proved highly unpopular and may negatively impact the recovery of household demand.

It is expected that both VAT rates will be eventually unified at 17.5% by 2016. From a hospitality perspective the reduced rate is currently only applied to hotels. For hotels, an overall increase from 10% prior to 2012 to an eventual 17.5% by 2014 represents a significant increase in the overall tax burden and may impact competitiveness and profitability going forward. For other hospitality operators however, the reduction in 2014 from 21% to 17.5% will be a welcome reversal of recent trends.

Other taxes

At present the only other tax specific to the hospitality sector is a tourism tax, levied on a per night stay basis. The tax is set locally and is capped at €1 per night.

1 These do not include any VAT deductions

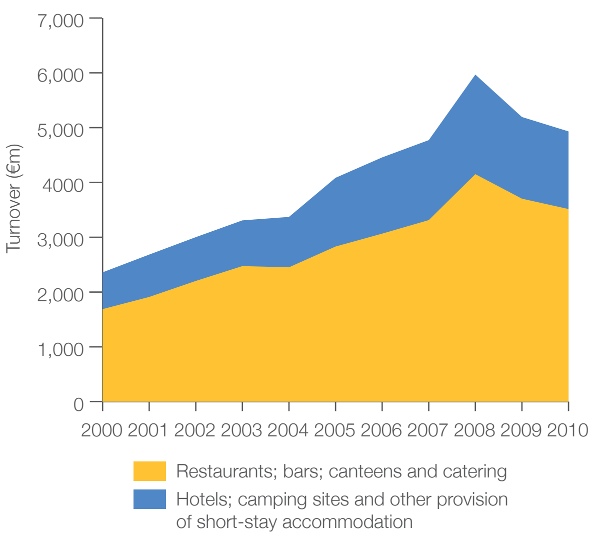
Hospitality sector in focus

The hospitality sector is dominated by restaurants and hotels, representing 63% and 25% of total turnover respectively. The performance of these two sub-sectors has generally reflected the wider economic environment, with downward pressure on incomes and employment over the last few years creating a more intensely competitive market.

Whilst overall turnover in restaurants fell between 2008 and 2010, the sub-sector has proven to be relatively resilient. Despite this resilience, the increase in the standard VAT rate in 2013 may be unwelcome for operators, who are seeing average revenues fall.

Under pressure from lower levels of occupancy rates in 2009 and 2010 the hotel sub-sector has recovered to above 2008 levels in 2011. A key trend in the past decade has been the move towards more premium hotel stays, increasing the overall value of the sub-sector to the wider economy.

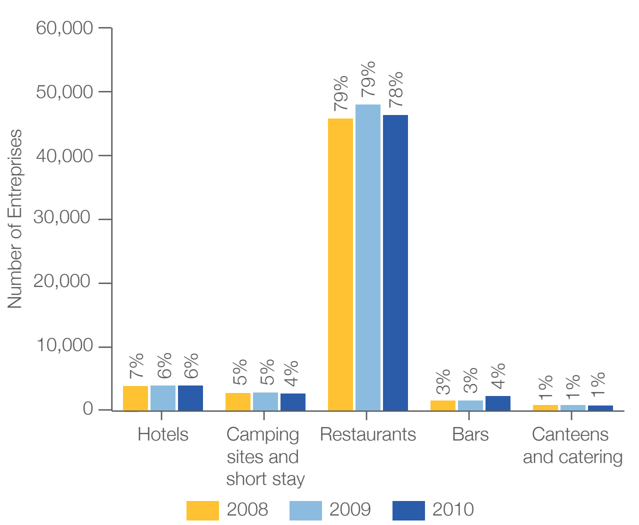
Turnover in the hospitality sector



Source: Eurostat

The growth in the hospitality sector, underpinned by growing domestic incomes and the opening up of key tourist destinations such as Prague to the wider EU market, was cut short by the economic downturn. Total turnover in the sector fell by 17% between 2008 and 2010, with accommodation falling by 22% and restaurants / bars / cafés by 15%.

Enterprises in the hospitality sector



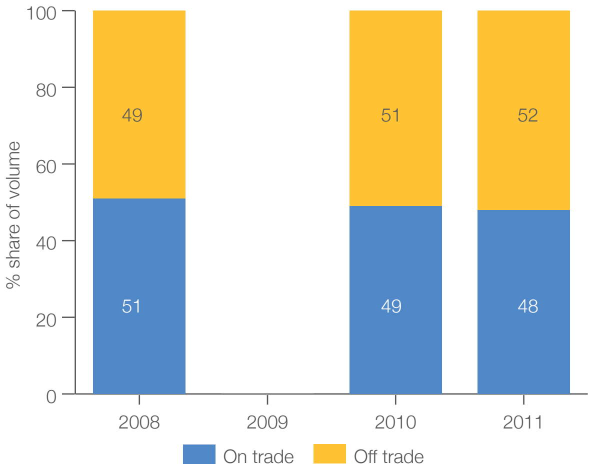
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

From a turnover perspective, restaurants account for over 60% of the total hospitality output, with hotels accounting for a further 25%. In terms of the number of enterprises this trend is more pronounced, with restaurants accounting for 78% of the total in 2010. The predominance of restaurants reflects the classification and type of outlets typically operating in the Czech Republic. Most outlets serving alcoholic beverages are also likely to be serving food and classify themselves as restaurants.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011



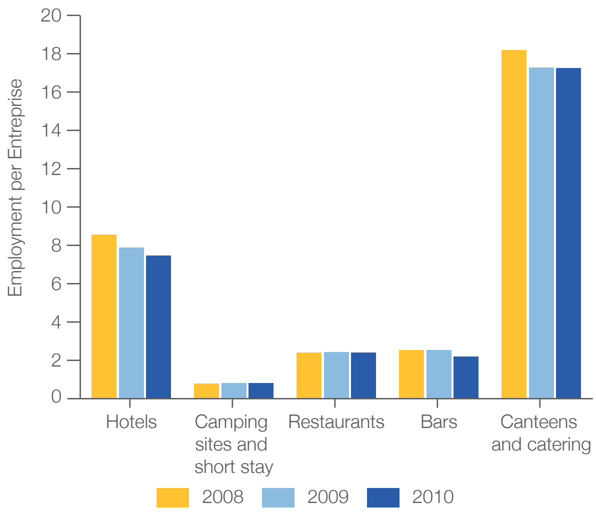
Source: The Brewers of Europe

On-trade sales (as a proportion of total volume) have been declining gradually since 2008. There has been a three percentage point change in on-trade as more consumers are favouring drinking at home and outside of pubs and bars. This trend could, in part, be due to the impact of the economic downturn and the associated squeeze on incomes, putting pressure on consumers' disposable incomes.

Employment in the hospitality sector

The hospitality sector as a whole directly employed around 162,000 people in 2010 and supported a further 144,000 jobs elsewhere in the economy. This equates to over 6% of the total workforce.

Employment per enterprise, 2008-2010



Source: Eurostat

Total employment across the sector has remained fairly resilient given the overall downturn in output experienced since 2008, falling by only 0.4% by 2010. These jobs have primarily been lost in the hotel sub-sector (with an 11% fall in overall employment). The impact of the current economic environment has been to reduce the overall number of employees per outlet, as operators seek to reduce costs in the face of falling demand and intense competition.

Enterprise Focus

BARS

Bars do not represent a significant amount of the hospitality sector output at only 2%. This reflects the nature of drinking outlets in the Czech Republic (primarily classified as restaurants) rather than a lack of an on-trade market.

RESTAURANTS

Restaurants account for 63% of total turnover in the hospitality sector and employ 75% of the related employees. For all hospitality sub-sectors the increase in VAT in 2013 represents another challenge to overall performance, as domestic incomes are squeezed and traditional international tourist markets become more intensely competed for. The anticipated reduction in standard VAT rates (from 21% to 17.5%) in 2016 will provide some relief to the sub-sector and help stimulate domestic consumption.

Despite a total fall in output between 2008 and 2010 the restaurant sub-sector did increase the number of jobs available marginally, in line with the net growth in enterprises (1-2%).

HOTELS

Over the past ten years or so the hotel sub-sector in the Czech Republic has been characterised by relatively strong growth in overall demand (in terms of overnight stays) and a shift from lower to higher end hotels. Between 2000 and 2011 the number of overnight stays in a 5 star hotel grew by 116% whilst those in 4 star hotels grew by 211%. This corresponded to a 20% fall in stays at other hotels.

The ability of the sub-sector to upgrade accommodation levels has helped to increase the overall turnover of the sub-sector above that of the number of stays. In total hotel and other accommodation turnover grew by 111% between 2000 and 2010, whilst the number of overnight stays increased by only 14%. The sharp growth in the number of conferences has also been a notable feature since 2006.

The increase in the applied reduced VAT rate from 10% pre 2012 to 15% in 2013, and potentially 17.5% in 2016, will continue to put pressure on hotel operators to cut costs.

Denmark

Denmark

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**3.2%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**3.0%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€12.6bn** (5.3% of the total)
GDP	**€5.0bn** (2.1% of the total)
Employment	**240,000** (9.1% of the total)

Total tax contribution of hospitality	**€1.8bn**
Excise	**€0.1bn** (5.0% of the total)
VAT	**€1.16bn** (65.0% of the total)
Employment	**€0.54bn** (30.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.18** is spent in the wider economy.

Key Messages

- The hospitality sector in Denmark has largely reflected wider economic trends through to 2009; the sector has struggled to recover in 2010 however, despite stronger growth in the economy as a whole.
- The high tax environment and lack of reduced VAT rates has not helped to support the hospitality sector in responding to the downturn in demand.
- A recovery in international tourism provides an opportunity for the government to support the sector to expand upon a growing reputation and help deliver further flexible employment and investment. This could be in the form of reduced VAT rates.

Summary

Denmark's economic growth has been relatively moderate, a pattern expected to continue in the medium term. Whilst disposable incomes have remained relatively robust, a lack of domestic spending confidence and a competitive tourism market has created a relatively challenging environment for hospitality operators, already impacted by the economic downturn of 2008.

Denmark has historically had a relatively high tax environment for business and individuals, alongside relatively comprehensive public service provision. The economic downturn has placed considerable pressure on this approach, as negative/low economic growth reduces overall tax receipts, further challenging the government's scope to deliver a balanced budget by its target of 2020.

The standard rate of VAT of 25% is the third highest in Europe, with Hungary in top place at 27%. Denmark is unique in that it does not have any reduced rates of VAT. Excise duties remain relatively high, along with VAT. In an attempt to help stimulate the hospitality sector, recoverable VAT on hotel bed nights will be increased from 50% to 75% in 2014.

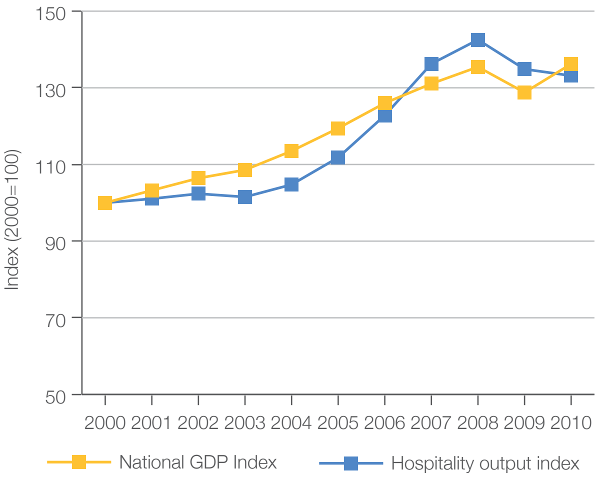
The hospitality sector directly accounted for around €5.8bn of turnover in 2010, with 46% coming from restaurants, 24% from hotels, 16% from canteens and other catering, 12% from bars and 2% from camping sites. The sector employed a total of just under 95,000 people in the same period and supported a further 146,000 across the wider economy.

Between 2000 and 2008 the hospitality sector grew by 43% followed by a 6.6% reduction over the subsequent two years. The previous growth spurred an expansion in capacity which has been undermined by the changing demand conditions, leading to a total reduction in hospitality jobs of 29% between 2008 and 2010. Denmark has recently gained a high global profile for its restaurant sub-sector which presents an opportunity to increase the overall number of visitors to the country.

Economy Overview

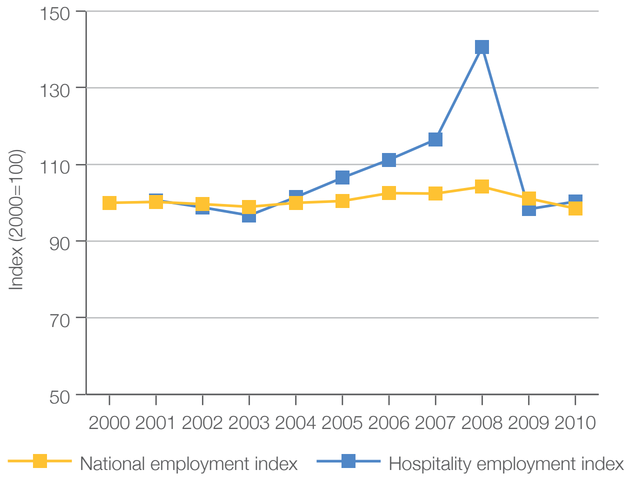
Denmark's economic growth over the past decade has been moderate, at around 3.2% per annum in nominal terms. The downturn in 2008 contributed to a period of continued low growth, expected to remain in the short term. Whilst disposable incomes have remained relatively robust, a lack of domestic spending confidence and a competitive tourism market has created a relatively challenging environment for hospitality operators.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

Between 2000 and 2010 the Danish economy grew at an average annual rate of 3.2%. In the same period the hospitality sector grew at a comparative rate of 3.0%. This relatively low rate for the period as a whole does not reflect a rapid growth phase for the sector between 2004 and 2008, which was eventually undermined by the economic crisis. Austerity measures and slower European demand means that economic growth in Denmark in the near future is expected to remain below 2% per annum.

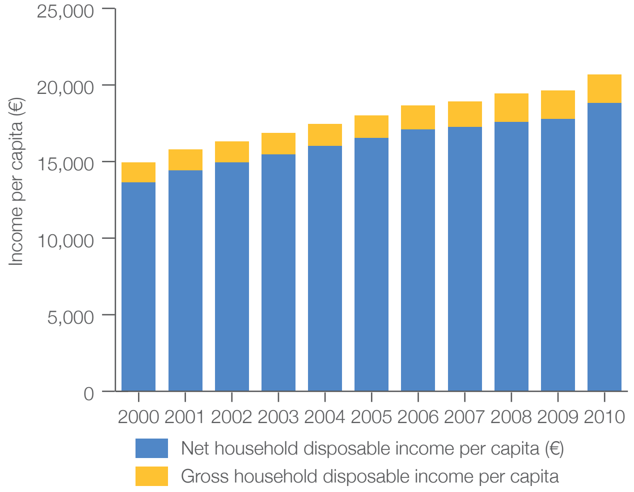
In assessing the two indices presented above it is clear that the hospitality sector is particularly sensitive to changes in wider economic conditions.

Inflation in Denmark over the 2000 to 2010 period has grown at a compounded growth rate of 2.0%. Adjusting for inflation, average real GDP growth over the period was 1.1%, and growth in the hospitality sector was 0.9%.

Whilst overall employment rates in Denmark have proven to be stable across the period, employment in the hospitality sector rose significantly in the years running up to 2008, peaking at 132,000, with the sector increasing capacity to keep up with the expected growth in demand.

The downturn resulted in a sharp reduction in employees (back to 2003 levels) as operators sought to readjust their excess capacity. This led to a loss of some 38,000 jobs from 2008 levels.

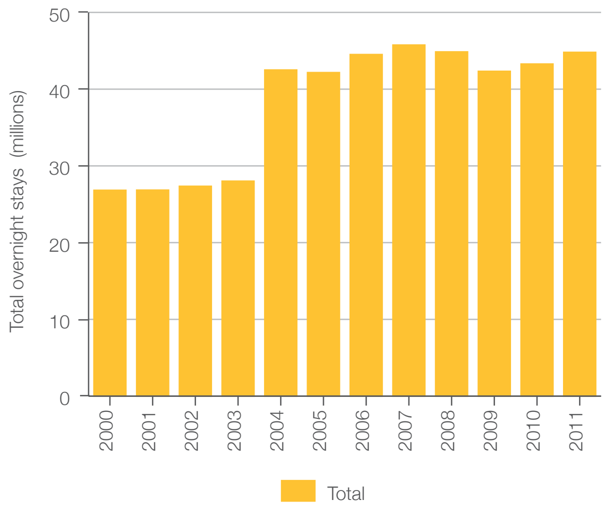
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Reflecting the mature nature of the Danish economy, real disposable incomes have risen gradually across the period to over €20,000 per capita in 2010. Whilst overall economic performance has slowed, disposable incomes have typically remained robust.

Tourism index, 2000-2011



Source: Eurostat

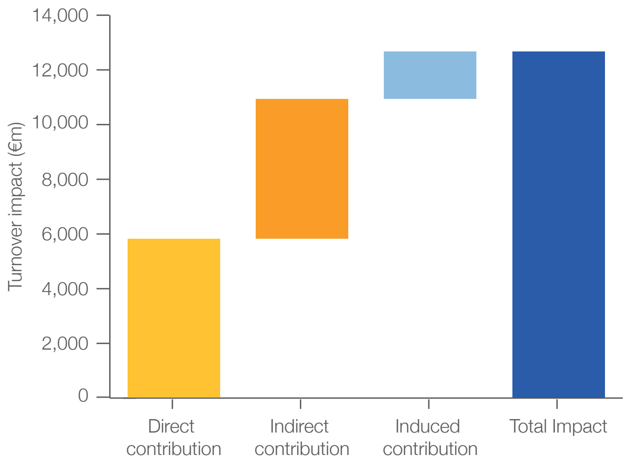
As with any hospitality sector, tourism in Denmark is a contributor to overall success and has been estimated to contribute to around 20% of the restaurant and café turnover and up to 80% of hotels turnover. Following a sharp increase in overnight stays in 2004 overall stays grew steadily to 2008, where the global downturn and domestic recession reduced overall tourism in Denmark. Since the low of 2009 tourism has started to recover, with Denmark gaining a particular reputation for gastronomy, on the back of the recent profile of certain chefs and restaurants.

It should be noted that the significant increase in 2004 was largely due to a change in data classification, with the renting of summerhouses included post 2003.

Economic Contribution of the hospitality sector

The total turnover supported by the Danish hospitality sector is €12.6bn, 5.3% of total output. This equates to a value added to GDP of €5.0bn, 2.1% of the total. For every €1 spent by the sector, an additional €1.18 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of 240,000 jobs are supported by the Danish hospitality sector, representing over 9% of the total workforce.

Turnover of the hospitality sector, 2010



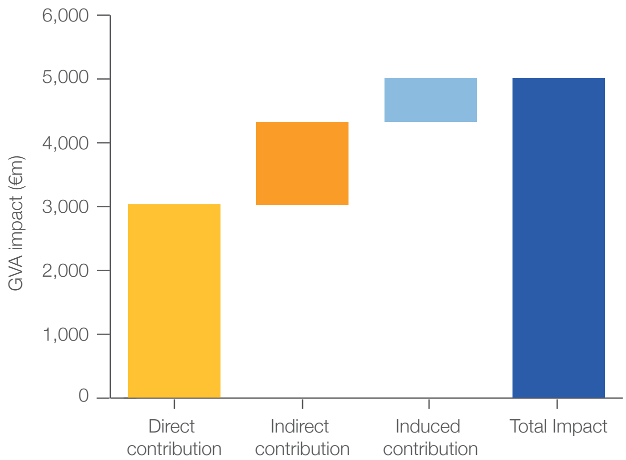
Source: Eurostat, EY calculations

The hospitality sector directly contributes over €5.8bn in turnover.

Denmark's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.88, meaning that for every €1 spent by the hospitality sector an additional €0.88 of demand is generated in its supply chain.

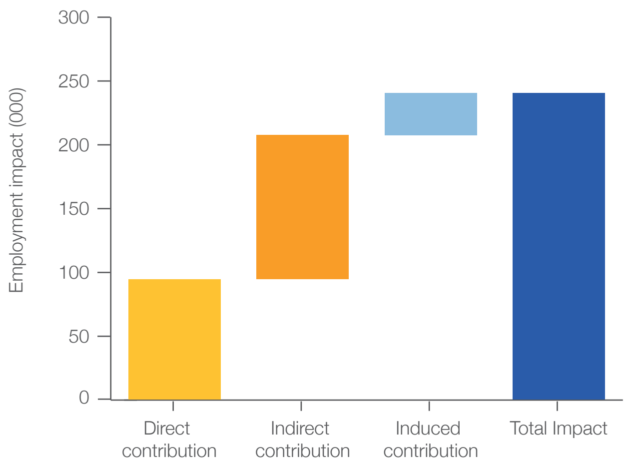
Taking into account the indirect and induced effects the sector contributes total turnover of €12.6bn, representing 5.3% of total output in 2010, a relatively low proportion in comparison to other European countries.

GDP impact of hospitality sector, 2010



The total value added by the hospitality sector to GDP has been estimated at just over €5.0bn in 2010, 2.1% of the total. The induced impact is particularly low in Denmark due to the relatively high levels of direct and indirect taxation which reduce the overall impact upon disposable income and thus ability to consume more goods and services.

Employment impact of the hospitality sector, 2010



Despite having relatively low turnover and GDP multipliers, the employment impact of the hospitality sector is particularly high in Denmark. This is primarily due to the nature of the supply chain, indicating that much of it is supplied domestically through relatively labour intensive industries (e.g. agriculture).

It is estimated that the hospitality sector supports a total of 240,000 jobs in Denmark, representing around 9.1% of the total workforce. This highlights the importance of the hospitality sector in supporting wider employment opportunities in the economy; for every 2 jobs created in hospitality, a further 3 are created in the wider economy.

Regulation / Taxation

Denmark has historically had a relatively high tax environment for business and individuals, alongside relatively comprehensive public service provision. The economic downturn has placed considerable pressure on this approach, as negative/low economic growth reduces overall tax receipts, further challenging the government's scope to deliver a balanced budget by 2020.

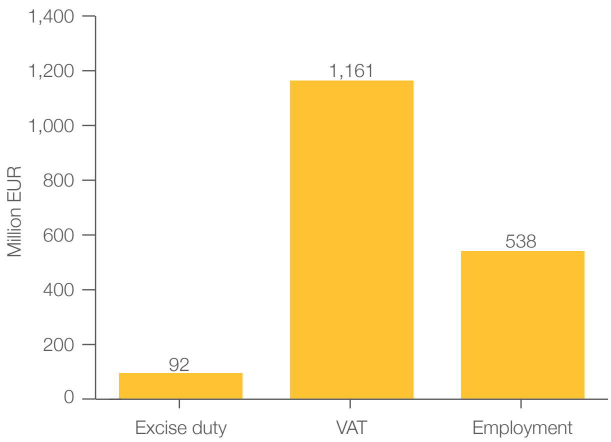
The standard rate of VAT of 25% is the third highest in Europe, with Hungary in top place at 27%. Denmark is unique in that it does not have any reduced rates of VAT. Excise duties remain relatively high, along with VAT. In an attempt to help stimulate the hospitality sector, recoverable VAT on hotel conferences etc, will be increased from 50% to 75% in 2014.

Tax Receipts

The hospitality sector in Denmark generates tax returns for governments in a range of ways, including corporation tax on profits, employment taxes, VAT, excise duties and license fees.

In excise duty, VAT and employment taxes (employee and employer contributions) alone, the hospitality sector directly contributed around €1.8bn to the Danish government. Reflecting the particularly high VAT rate in Denmark, VAT receipts account for 65% of the total.

Tax receipts by type, 2010



Source: EY calculations

Excise Duty

Excise duty on beer, wine and spirits in Denmark are among the highest in Europe. Duty rates have seen a number of changes since 2011, with increases for both wine and beer duties.

From 1 July 2013 beer duty was reduced to DKK 56.02 per °alc / hl; with duty on wine at DKK 1,101 per hl. Duty on spirits remains at DKK 15,000 per hl pure alcohol.

VAT and Reduced rates

The standard rate of VAT in Denmark is 25%, with no reduced rates applied. This structure has been applied since 1992.

The Danish government is to give the hotel, restaurant, tourism and conference sub-sectors a boost by increasing the recoverable VAT on hotel room stays.

Currently only 50% of Danish VAT suffered at conferences etc. may be recovered by visitors and guests through their own VAT returns. From 1 January 2014, this will be raised to 75%.

Other taxes

Denmark does not have any specific national tourist or terrace taxes.

In 2011 a saturated fat tax was introduced, which levied €2.15 per 1kg of saturated fat. This tax and a planned sugar tax have both been abolished.

A tax on soft drinks has been reduced by 50% in 2013, and will be abolished in 2014.

Hospitality sector in focus

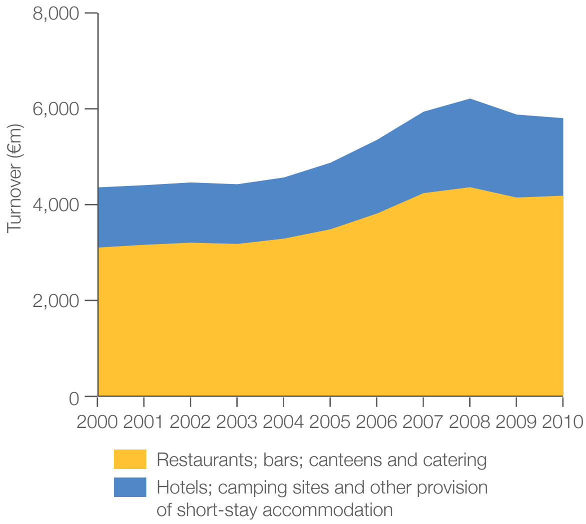
The hospitality sector directly accounted for around €5.8bn of turnover in 2010, with 46% coming from restaurants, 24% from hotels, 16% from canteens and other catering, 12% from bars and 2% from camping sites. The sector directly employed a total of just under 95,000 people in the same period and supported a further 146,000 across the wider economy.

Between 2000 and 2008 the sector grew by 43% followed by a 6.6% reduction over the subsequent two years. The previous growth spurred an expansion in capacity which was undermined by the changing demand conditions, leading to a total reduction in hospitality jobs of 29% between 2008 and 2010.

Denmark has recently gained a high global profile for its restaurant sub-sector which presents an opportunity to capitalise and increase the overall number of visitors to the country.

Turnover in the hospitality sector[1]

Hospitality sector breakdown, 2000-2010

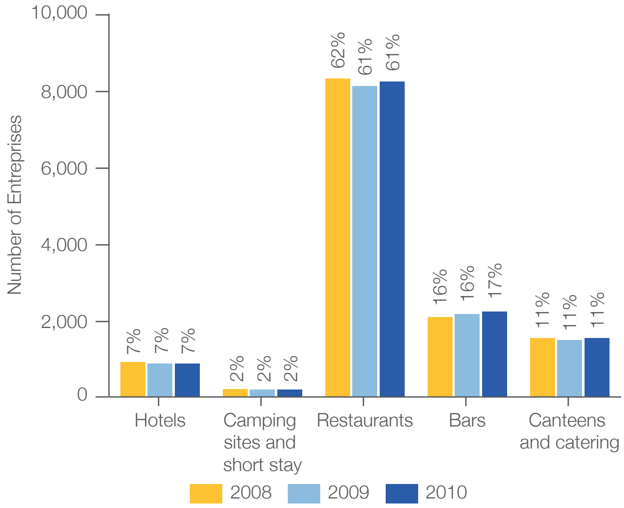


Source: Eurostat

From 2000 to 2010 the hospitality sector's turnover in Denmark grew from €4.4bn to €5.8bn, an average annual rate of 3%. Following expansion between 2004 and 2008 total turnover reduced by 6.6% by the end of 2010. The decline fell more heavily upon accommodation providers, with a fall in turnover of 12.5% across the two years. Restaurants, bars and other catering saw a decline of 4.1% in the same period.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

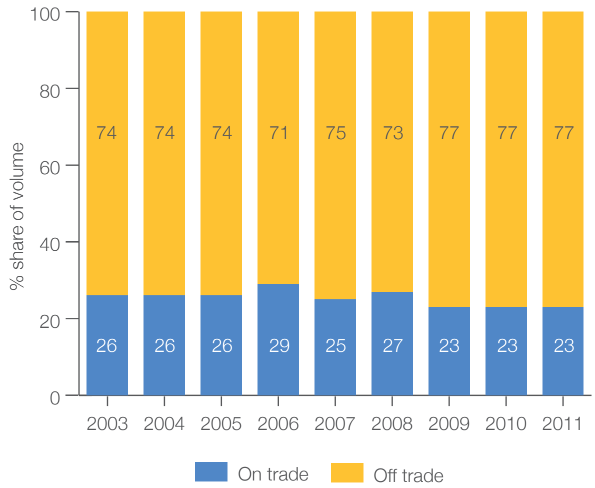
Across the hospitality sector, restaurants account for around 61% of enterprises and 46% of turnover, bars account for 17% of enterprises and 12% of turnover. This highlights the comparative sizes of each enterprise in comparison to hotels (7% of enterprises and 24% of turnover), canteens and other catering (11% of enterprises and 16% of turnover) and camping (2% of enterprises and turnover).

As may be expected, the total number of enterprises in the hotel sub-sector has decreased by 4.2%, against a fall in turnover of 12.8%. The number of bars, however, has increased by 6.8% in the same period, suggesting a reduction in average revenues but signs of investment and confidence in the future prospects of the sub-sector.

1 The data presented for all hospitality sector metrics is derived from Eurostat. It is noted that some of these numbers (specifically hotel numbers and total employees) do not tally with Danish national statistics. This is likely due to differences in classification. To ensure consistency and transparency across this report, however, the Eurostat numbers have been retained.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2003-2011



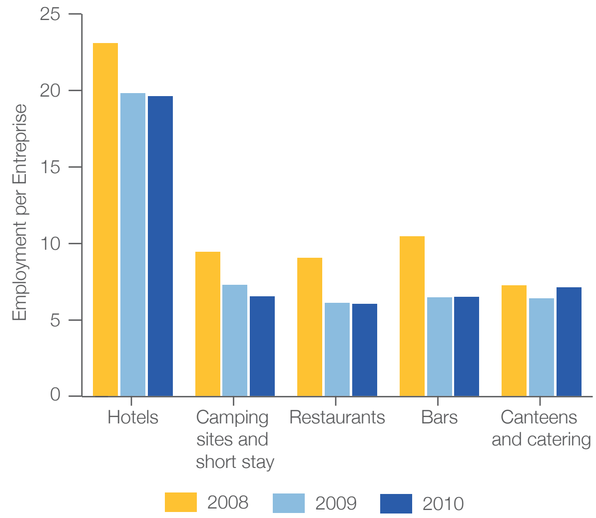
Source: The Brewers of Europe

Against other European comparators Denmark has a particularly low on-trade market for beer, at 23% in 2011. This reduced marginally from 26% in 2003, but has fallen particularly sharply since the economic downturn of 2008.

Employment in the hospitality sector

The hospitality sector directly employs almost 95,000 people and supports (through indirect and induced effects) a further estimated 146,000, in total representing over 9% of the workforce. Of the 95,000 directly employed, 52% work in restaurants whilst 18% work in hotels, 15% in bars and 12% in canteens and other catering.

Employment per enterprise, 2008-2010

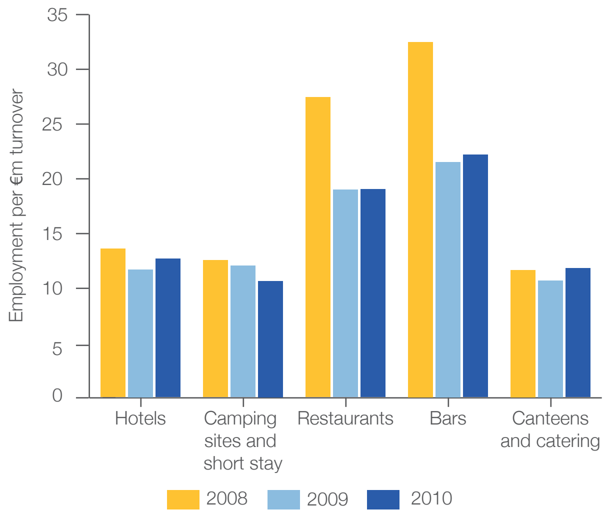


Source: Eurostat

Total employment in the sector fell from a high of 132,000 in 2008 to just below 95,000 in 2010 (comparable to employment levels in 2000). In adjusting the perceived excess capacity in the sector, restaurants and bars reduced their workforces by over a third in the two year period. Total employment in the accommodation sub-sector fell by a corresponding 20%, representing a net loss of over 350 jobs per week.

The total fall in employment is reflected in the number of employees per enterprise, with significant reductions being made against an increasingly competitive market. The reduction in employees per bar is particularly steep, as total employment opportunities are falling whilst the number of enterprises has increased.

Employment per €m turnover, 2008-2010



Source: Eurostat

The employment trends in the sector are particularly interesting when viewed against a productivity measure. Both bars and restaurants have been able to deliver the same level of output (in this case €1m) with around 10 less employees in 2010 when compared with 2008. This suggests that operators have been forced to cut staff costs and deliver more efficiently to compete in a fairly stagnant market and deliver profit margin targets.

Enterprise Focus

BARS

In comparative terms, bars have performed fairly strongly since 2008, with a fall in turnover of 2.8% across the two years. The number of enterprises has increased, suggesting relative confidence in the future of the sub-sector, whilst operators appear to have been able to deliver productivity gains from a labour perspective.

Despite reductions in excise duties in 2003/4 alcoholic beverages in Denmark remain relatively expensive when compared to other European countries (although they are comparable with nearby Scandinavian countries), with bars having to focus on quality and service offering/choice to capture a greater proportion of alcoholic beverages sales (given Denmark's relatively low proportion of on-trade sales). The implementation of an indoor smoking ban in 2007 also placed additional pressure on bars and their ability to attract consumption in the on-trade.

RESTAURANTS

The growth in restaurants and an eating out culture throughout the mid-2000s has to some degree been curtailed by squeezed domestic incomes and a competitive international tourist market. Although Danish gastronomy is increasingly well respected, as Denmark is a comparatively expensive destination, visitor numbers may be particularly sensitive to changes in disposable incomes.

HOTELS

The dampening demand for hotels from business and tourism since 2008 has placed increasing pressure on hotel operators, with revenues falling by 12.8% in two years leading to a 4.2% reduction in net hotel enterprises. A primary challenge for hotels in Denmark is the ability to remain price competitive with a range of European destinations. Relatively higher taxes on inputs (e.g. food, beverages) as well as restrictions upon VAT recoverability place an increasing challenge on operators to deliver target margins.

The change in VAT recoverability (as noted previously) in 2014 will provide some relief to hotels, but the challenge of low economic growth and resultant impact upon business and leisure travel will remain for a few years to come.

Estonia

Estonia

Key Statistics

Average annual GDP growth rate, 2000 - 2010	**9.3%**
Hospitality sector annual growth rate, 2000 - 2010	**10.3%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€995m** (6.9%)
GDP	**€410m** (2.9%)
Employment	**30,000** (5.4%)

Total tax contribution of hospitality	**€137m**
Excise	**€14m** (10.0% of the total)
VAT	**€76m** (56.0% of the total)
Employment	**€47m** (34.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.17** is spent in the wider economy.

Key Messages

- High taxes on alcohol and relatively few bars means The Estonian hospitality sector is dominated by restaurants. On-trade is less than 10% of the beer market, albeit increasing over the period 2003 to 2010 from 7% to 9%.
- The Estonian economy had one of the strongest growth performances in the EU between 2000 and 2010, at 9.3% on average per annum. The hospitality sector outperformed even that mark, with 200% growth from 2000 to 2008, fuelled by a strong increase in tourism. This has been buoyed by a reduced rate of VAT in accommodation.
- There was a sharp decline in 2008 as the economy felt the bite of the global downturn. Effects of the 2009 increases to VAT standard and reduced rates have yet to feed through but with slowing of tourism these measures could have depressive effects on demand.

Summary

The Estonian economy experienced rapid growth between 2000 and 2010, with the fifth highest annual growth rate in Europe (9.3% per annum in nominal terms). This is due to expansion of 150% between 2000 and 2008, a rate which was even exceeded by the hospitality sector (200%).

Estonia's increased integration with the common European market has underpinned much of this economic growth but also leaves it exposed to the current economic instability across the Eurozone, which has helped to undermine demand in key export markets. Despite wider uncertainty, Estonia delivered strong performance in 2011 (over 8% growth in GDP in real terms) and is expected to avoid any slip back into recession in the medium term. Whilst the overall picture for the economy looks positive going forward, government budgetary plans are likely to continue to place pressure on disposable incomes (through tax rises and public spending cuts) and spending in the hospitality sector.

Excise duties on alcohol have increased in recent years, most notably for beer and spirits. This trend will continue with announced increases of 5% per year until 2016. The hospitality sector faces the same general rate of VAT (20%) as the rest of the economy has since 2009. The exception to this is for hotels which benefit from a reduced rate of 9%. These rates were increased from 18% (standard rate) and 5% (reduced rate) in 2009.

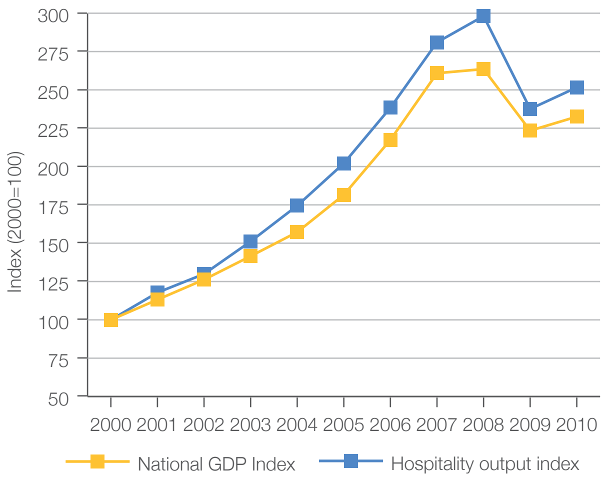
The hospitality sector is dominated by restaurants and hotels, representing 49% and 36% of turnover in the sector respectively. The sector's recent performance has reflected the wider economic environment with the recession in 2008-2009 and signs of recovery since. The sector has largely borne dampened demand and increasing taxation by reducing staff and wages, with proportionately smaller reductions in the number of hotels and bars, and increases in the numbers of other types of enterprise.

Economy Overview

The Estonian economy experienced significant growth between 2000 and 2010, with the fifth highest average growth rate in Europe (9.3% per annum in nominal terms). This is largely due to an expansion of 150% between 2000 and 2008, a rate which was exceeded by the hospitality sector (200%).

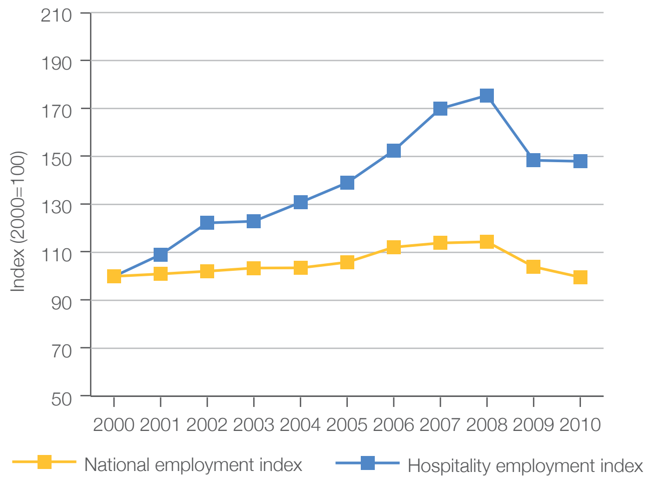
Estonia's increased integration with the common European market, entering the EU (2004), Schengen (2007) and the Euro (2011) has underpinned much of this economic growth but also leaves it exposed to the current economic instability across the Eurozone which has helped to undermine demand in key export markets. Despite wider uncertainty, Estonia delivered strong performance in 2011 (over 8% growth in GDP in real terms) and is expected to avoid any slip back into recession in the medium term.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010

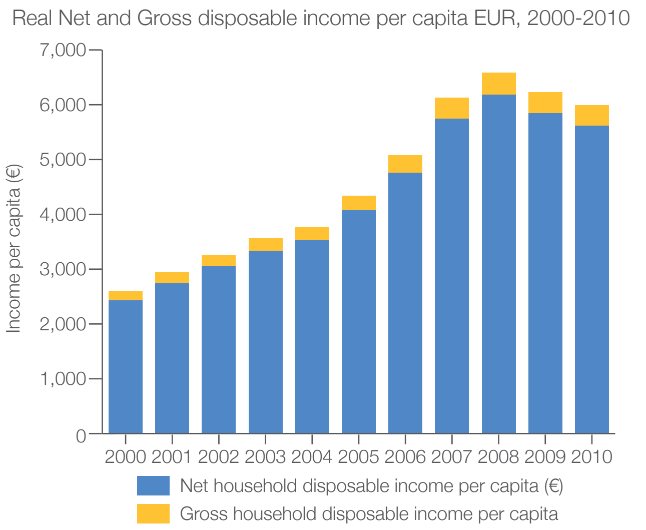


Source: Eurostat

In nominal terms, the Estonian economy experienced rapid growth between 2000 and 2010 at an average of 9.3% per annum, the fifth highest in Europe. Growth accelerated from 2003-2008 coinciding with a period of increasing integration with Europe. As a relatively small, open economy, its exports are particularly vulnerable to recession in Europe, and its speed of recovery will be partially dependent upon demand from its prime export markets in Scandinavia.

Inflation in Estonia over the 2000 to 2010 period has grown at an average rate of 4.2% per annum. Adjusting for inflation, average GDP growth over the period was 5.1%, and growth in the hospitality sector was 6.1%. This reflects the sector's key role in delivering wider economic prosperity in Estonia.

Growth in the hospitality sector exceeded that of the economy as a whole, peaking in 2008 with a turnover around three times that at the start of the decade. The sector also became an increasingly important employer, with demand for labour outpacing that of the economy as a whole.

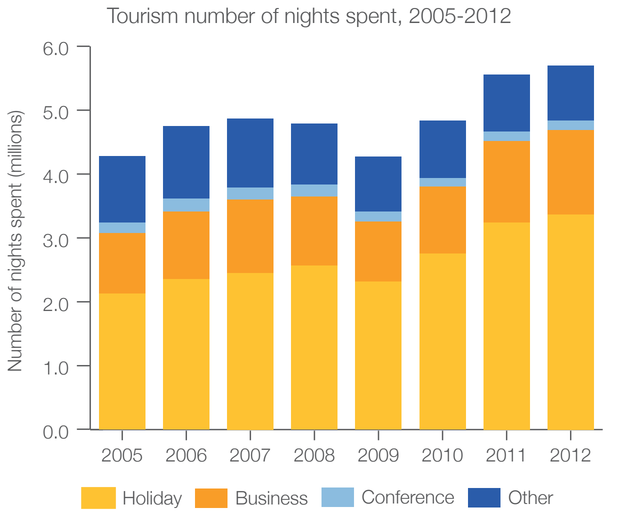


Source: Eurostat

Whilst GDP recovered a little in 2010, real disposable income continued to fall in 2010. In 2013, the government has increased the national minimum wage to €320 per month, having been at €290 in 2011, and €278 from 2008 to 2010.

The increase in the national minimum wage may present initial challenges for the hospitality sector, which have a relatively higher proportion of impacted staff than other sectors (given the number of part time and flexible/seasonable jobs in the sector). This will increase the pressure on operators' costs and is likely to be reflected in higher prices.

The positive side for the sector is, however, that higher national minimum wages may increase average disposable incomes generally, helping to stimulate greater demand for accommodation, restaurants, bars and other entertainment.



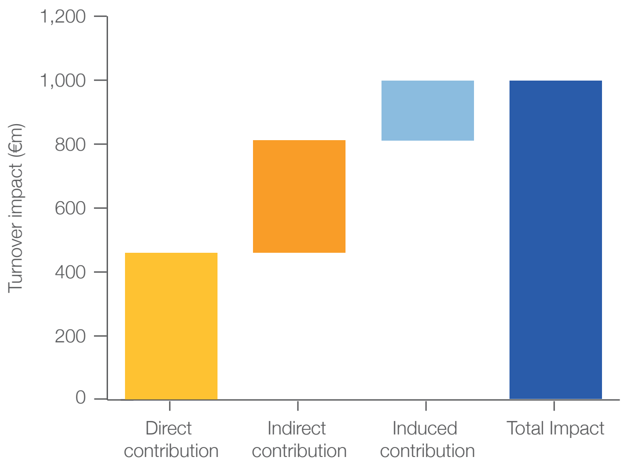
Source: Statistics Estonia

Tourism has grown over the period and has recovered from the sharp decline in 2009 to exceed the levels seen before the recession. In 2012 the number of nights spent by visiting tourists was 33% higher than in 2005. The greatest increase (over 50% on 2005) levels were in the number of nights spent by holiday makers.

Economic Contribution of the hospitality sector

The total turnover supported by the Estonian hospitality sector is €995m, almost 7% of total output. This equates to a value added to GDP of €410m, 2.9% of the total. For every €1 spent by the sector, an additional €1.17 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of 30,000 jobs are supported by the Estonian hospitality sector, representing over 5% of the total workforce.

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

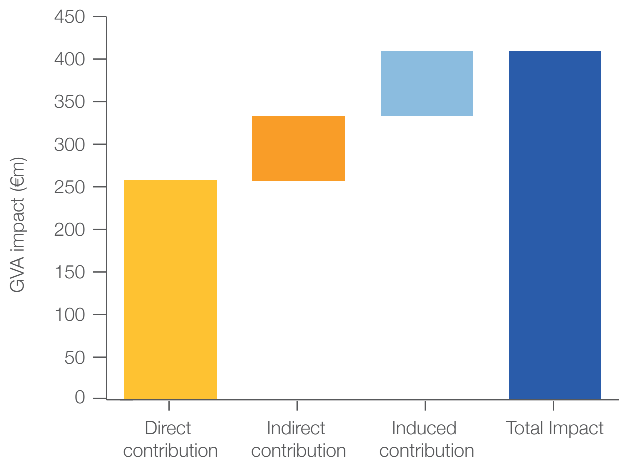
Total turnover supported by the hospitality sector is almost €1bn, which equates to approximately 7% of total output. Of this, €460m is directly contributed by the hospitality sector.

Estonia's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.77, meaning that for every €1 spent by the hospitality sector an additional €0.77 of demand is generated in its supply chain.

Estonia is fairly typical of the Nordic and Baltic states with the contribution of the sector being less than 10 percent, and residing in the bottom half of the distribution of European countries.

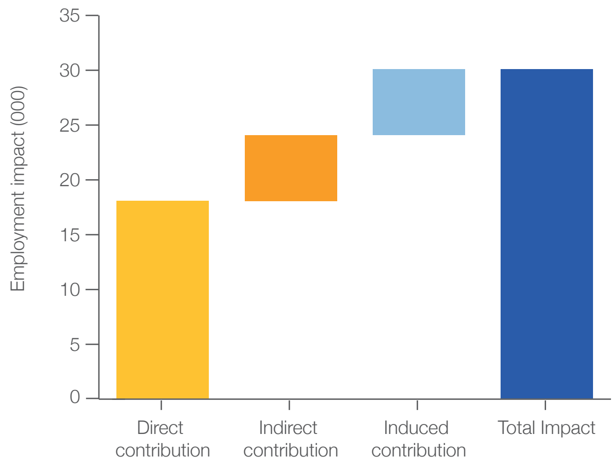
The hospitality sector has, however, increased its proportion of total economic activity throughout the 2000-2010 period.

GDP impact of hospitality sector, 2010



The total value added by the sector including its indirect and induced effects is just under €410m, or 2.9% of GDP.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

The hospitality sector directly employs or indirectly supports over 30,000 jobs, representing over 5% of the total workforce.

The Estonian hospitality sector has a comparatively small indirect impact, around three-quarters of the direct impact; this suggests that the sector relies proportionately more on imported inputs or labour.

The induced contribution is also comparatively small at 40% of the direct impact. This suggests that compensation of employees is a relatively small fraction of total turnover.

Regulation / Taxation

Excise duties on alcohol have increased several times in recent years, with duty on beer and spirits almost 50% above the rate applied in 2008. Over the same period, duty on wine has increased by 21%.

The hospitality sector faces the same general rate of VAT (20%) as the rest of the economy has since 2009. The exception to this is for hotels which benefit from a reduced rate of 9%. These rates rose in 2009 from 18% (standard rate) and 5% (reduced rate). In a period of falling demand these cost increases placed additional constraints on the hospitality sector's ability to continue to grow and deliver output and employment opportunities to the wider economy.

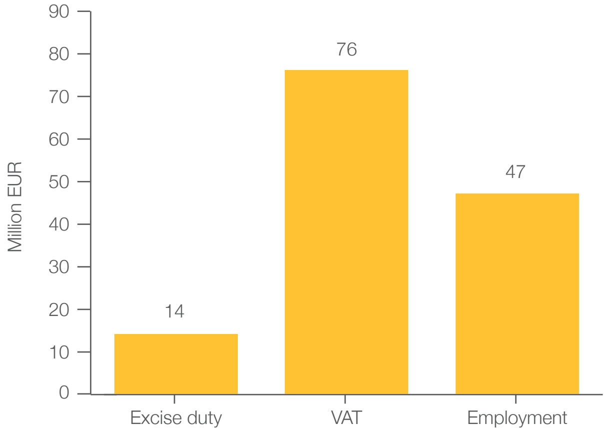
Estonia has had a fairly comprehensive indoor smoking ban (introduced in 2007), applied across the hospitality sector. This has provided a consistent challenge for operators who wish to attract consumption to the high value adding on-trade (as a sale in the on-trade creates greater output and employment than in the off-trade).

Tax Receipts

The growth witnessed in the Estonian hospitality sector has helped to generate further tax receipts for the government. Tax receipts are generated by the sector in a number of ways, including corporation tax on profits, employment taxes, VAT, excise duties and license fees.

In excise duty, gross VAT receipts (VAT deductions are not accounted for) and employment taxes (employee and employer contributions) alone, the hospitality sector directly contributed €137m in tax receipts in 2010.

Tax receipts by type, 2010



Source: EY calculations

VAT represents 55% of the total tax return, with employment related taxes representing another 35%.

Excise Duty

There have been several increases to excise duties on beer, wine and spirits. Since 2008, duty on beer and spirits has increased by 47% and 46% respectively. Over the same period, duty on wine has increased by 21%.

The most recent increases came at the start of 2013 when beer reached €6 per % abv/hl, wine €80.6/hl and spirits €1,565/hl pure alcohol.

There is a duty escalator in place to increase levels by 5% each year from 2014-2016.

VAT

The standard rate of VAT in Estonia is 20%. This has not changed since July 2009, when it was increased from 18%. A reduced rate of 9% applies to the provision of accommodation. As with the standard rate, the reduced rate was also increased in 2009 from its previous rate of 5% (the change therefore disproportionately impacted accommodation providers).

These increases in VAT in 2009 impacted the hospitality sector in particular; as discretionary spending was squeezed following the economic crisis, the cost of hotels and eating/drinking out was also rising.

Hospitality sector in focus

The hospitality sector in Estonia is dominated by restaurants and hotels, representing 49% and 36% of turnover respectively. The sector's recent performance has reflected the wider economic environment, including a sharp recession in 2008-2009 and positive signs of recovery since.

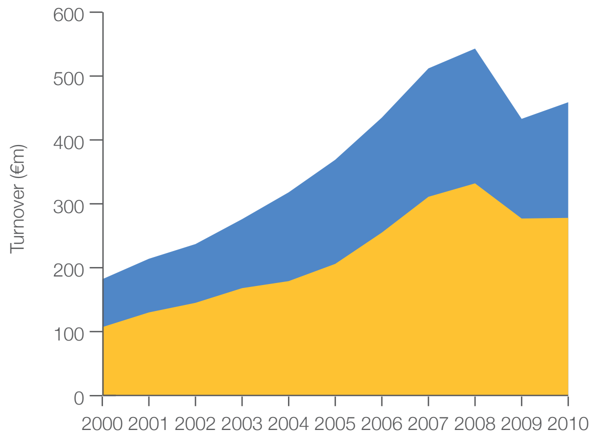
In general the sector has borne the recession by reducing staff numbers and wages, with proportionately smaller reductions in the number of hotels and bars, which have shown some resilience to falling demand and higher tax requirements (following rises in VAT in 2009).

Hotels have experienced the strongest recovery in terms of turnover and average wages, but employment does not appear to have picked up as rapidly. The turnover of bars continued to decline in 2010. This trend may continue if the future increases in alcohol duties drive higher proportions of alcohol sales to the off-trade.

Estonia is actually one of the few European countries to have witnessed an increase in the proportion of beer sales in the on-trade since 2003, although at 9% in 2011 the proportion is still comparatively low. Any shift in consumption to the on-trade generates wider benefits for economic output and employment.

Turnover in the hospitality sector

Hospitality sector breakdown, EUR 2000-2010



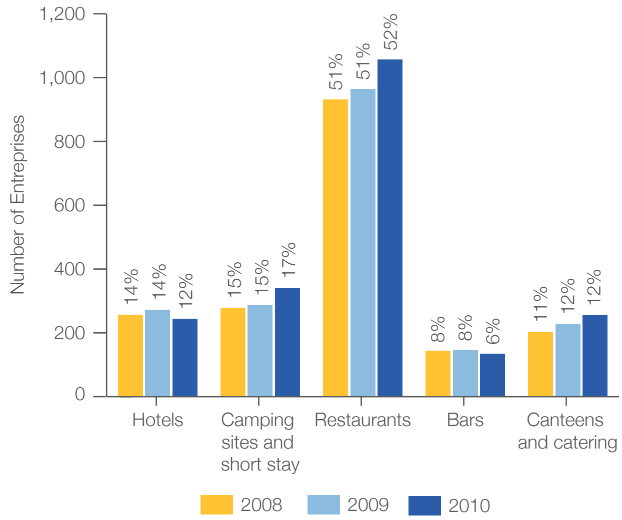
Source: Eurostat

The hospitality sector grew rapidly from 2000 to 2008 to reach €543m in turnover, before a 15% decline by the end of 2010. Accommodation providers experienced a more notable reduction in turnover during the recession than restaurants / bars / cafés but experienced a quicker return to growth, with turnover actually increasing between 2009 and 2010 by 16%. In contrast, the rest of the hospitality sector saw a consolidation in 2010, with turnover constant from the previous year.

Of the €458m generated in 2010, 49% comes from restaurants and a further 36% from hotels. The bar / café sub-sector in Estonia is relatively small, representing only 3% of turnover in 2010.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



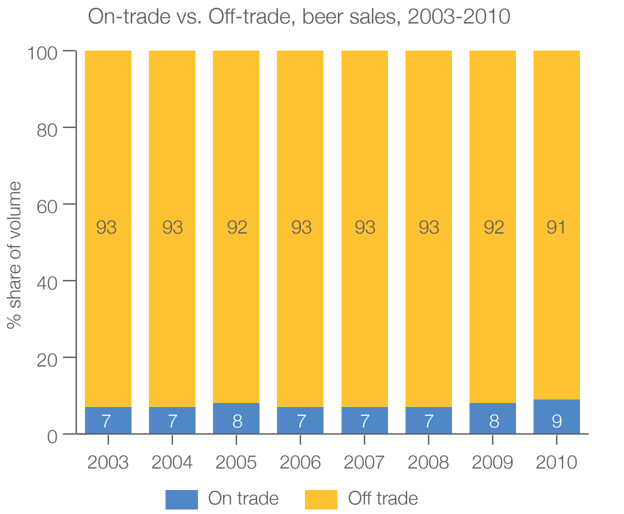
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total to 100% due the omission of Other enterprises.

The number of hotels and bars fell in 2010, in contrast to the number of camping/short stay accommodation and restaurants which increased.

In total, the number of enterprises grew by around 12% between 2008 and 2010 to 2,036, with over 200 additional enterprises in the period. The vast majority of these came from short stay accommodation (+22%) and restaurants (+13%). The number of hotels and bars fell to 242 (-5%) and 132 (-6%) respectively.

On-trade vs. Off-trade

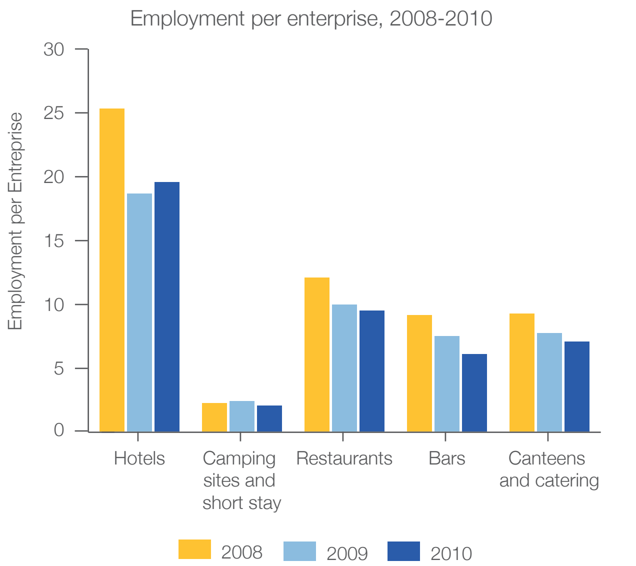


Source: The Brewers of Europe

As with other Baltic and Nordic countries the majority of beer sales in Estonia are via the off-trade. This has changed slightly in recent years with 9% of the volume of sales coming via the on-trade. Greater consumption (as a proportion) in the on-trade brings with it wider economic benefits to supply chains and other sectors (from the employment effect).

Employment in the hospitality sector

The hospitality sector employed 18,000 people in 2010 and supported a further 12,000 jobs elsewhere in the economy. This equates to over 5% of the total workforce in Estonia. The sector is noticeably smaller than its peak size of over 21,000 employees in 2008, reflecting operators' need to reduce other costs in the face of an uncertain economic environment and rising VAT and excise duties.



Source: Eurostat

The hotel sub-sector and bars / cafés experienced the largest reductions in employment between 2008 and 2010 of 26% and 38% respectively. This compares to the much smaller fall in the number of enterprises of (-5% for hotels and -6% for bars).

This is reflected in a general reduction in the average number of employees per enterprise, most notable in the hotel sub-sector where enterprises employed 5 fewer people on average than they did in 2008.

Enterprise Focus

BARS

Bars represent 3% of the total turnover of the hospitality sector. Total turnover has fallen from €34m in 2008 to €16m in 2010. However this does not appear to coincide with large scale exit from the sub-sector as the number of enterprises fell by only 6% (136 enterprises) in the same period. Bars faced with lower turnover appear to have survived with fewer staff, rather than by exiting the sub-sector.

RESTAURANTS

Restaurants represented 36% of the total turnover and over half of the total employment in the sector. Whilst the number of restaurants has increased since 2008, employment levels have not returned to 2008 levels, highlighting the necessary increase in productivity required to maintain levels of operator profitability.

The picture of more restaurants employing fewer people is reflected in lower average turnover per enterprise (falling from €270,000 to €213,000) and lower average wages (over 10% less) between 2008 and 2010.

HOTELS

In line with the hospitality sector as a whole, the size of the accommodation sub-sector almost trebled, in terms of turnover, from €75m in 2000 to €211m in 2008.

The recession saw a reduction in the number of enterprises, the average number of employees per enterprise and turnover. Average wages fell in 2009 but recovered in 2010 to close to their 2008 levels. There was some recovery in turnover in 2010 but the number of enterprises and employees, and wages continued to fall, suggesting that restructuring of the sub-sector continued despite an upturn in business.

The falling average revenues and wages in the sub-sector suggests that operators are still re-adjusting to higher tax burdens and challenging demand conditions. Whilst they have shown resilience in the short term, future investment and capacity for growth may be restricted by any further increases in applicable taxes.

Finland

Finland

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**3.1%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**3.2%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€12.1bn** (6.8% of the total)
GDP	**€5.0bn** (2.8% of the total)
Employment	**116,500** (4.8% of the total)

Total tax contribution of hospitality	**€1.6bn**
Excise	**€0.2bn** (12.0% of the total)
VAT	**€1.0bn** (63.0% of the total)
Employment	**€0.4bn** (25.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.24** is spent in the wider economy.

Key Messages

- High excise taxes have contributed to a reduction in an already small on-trade sector, from 25% of beer sales in 2003, to 15% in 2011.
- VAT and excise duties account for 75% of tax receipts from hospitality. Excise duties on wine, beer and spirits are 40% up in 2013 when compared to 2008 levels. The standard rate of VAT is comparatively high at 24%.
- Provision of reduced rates on restaurants and hotels has helped to sustain the sector's contribution to the economy, making turnover broadly comparable to overall economic growth, with similar performance in employment until 2007.

Summary

The Finnish economy grew steadily throughout the 2000-2010 period, at an average annual rate of 3.1%. The hospitality sector has fared better than the economy as a whole experiencing faster growth in the latter half of the decade with a comparatively small recession and returning to 2008 levels of output by 2010[1].

Finland currently has the highest excise duty on beer in Europe (at €29.9 per % abv / hl in 2013), a rate which has increased by 40% since 2008. VAT has increased from 23% to 24% in 2013, as part of the Government's austerity plans as the country aims to reduce budget deficits. Restaurants (10%) and hotels (14%) benefit from reduced rates of VAT.

The hospitality sector is dominated by restaurants (54% of total turnover), hotels (22%), and canteens and catering (17%). The sector has been more resilient than the economy as a whole in the last few years, with restaurants maintaining, albeit at a slower rate, positive growth in 2009 and 2010. Since neighbouring Estonia joined the EU, there has been increasing importation of alcoholic beverages by passengers travelling over the border from Estonia, affecting sales via the domestic hospitality sector and the respective taxes that would have been raised had the sales been made in Finland.

Hotels have shown the greatest signs of being affected by the 2008-2009 recession. The sector bounced back to some extent by 2010, having weathered the reduction in occupancy rates and pressure on prices from the previous year. Increased inbound visitors from Russia and Asia in recent years has compensated for the reduction in visitors from more stagnant European markets and the limited development of domestic tourism.

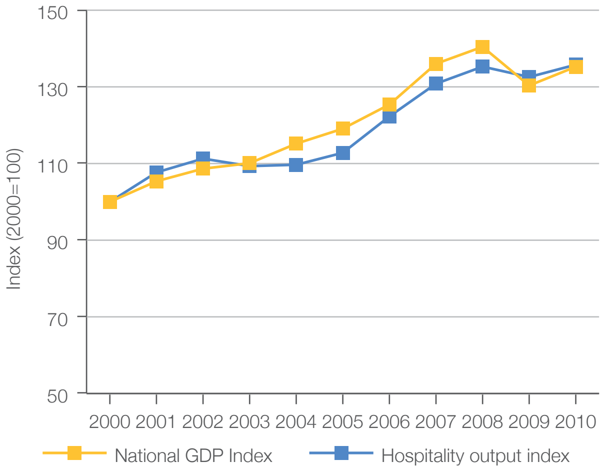
1 Please note, data from the Finland Hospitality Association suggests that the impacts of the recession in 2009 were greater than presented, with the recovery in 2010 being slower

Economy Overview

The Finnish economy grew steadily throughout the decade at an average annual rate of 3.1%, experiencing recession in 2008-2009 and returning to pre-recession growth rates in 2010. The level of output remained below pre-recession levels, and recovery is particularly dependent upon the recovery of key European export markets. The Eurozone crisis has contributed to Finland falling back into recession in 2012.

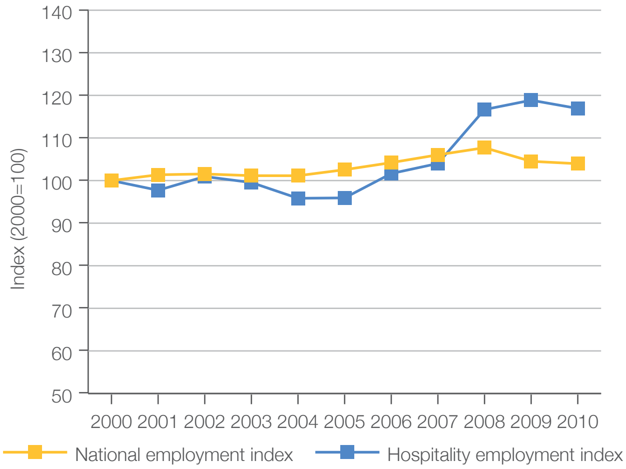
The hospitality sector has fared better than the economy as a whole, experiencing rapid growth in the latter half of the decade with a comparatively small recession and returning to 2008 levels of output by 2010.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

In nominal terms, the Finnish economy grew steadily throughout the decade before moving into recession between 2008 and 2009 (primarily due to a contraction in exports and domestic demand, as the Finnish financial sector was relatively unaffected by the banking crisis).

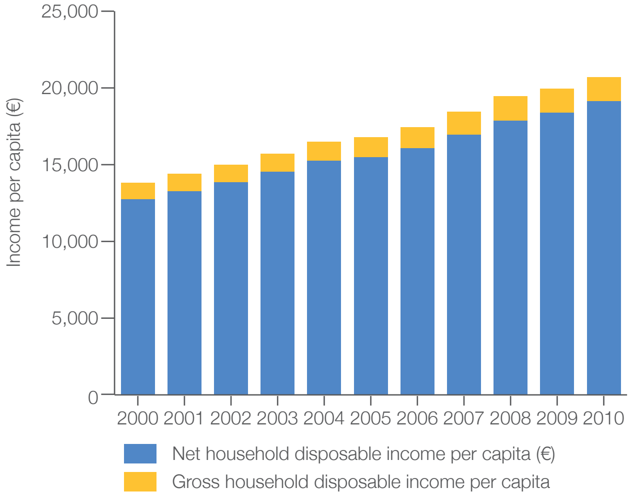
Inflation in Finland over the 2000 to 2010 period has grown at an annual rate of 3.1%. Adjusting for this, average GDP growth over the period was 0%, and growth in the hospitality sector was 0.1%.

The recovery in 2010 has been challenged by pressures in Finland's key European export markets. Reflecting this, and the current Eurozone crisis, the Finnish economy fell back into recession in 2012.

The hospitality sector experienced strong growth in the latter half of the decade. It bore the recession well with a comparatively small (2%) reduction in output between 2008 and 2009 resulting in a return to the 2008 level in 2010.

As with output, the hospitality sector was able to sustain high employment during the initial phase of the recession, with an increase in employment in 2009 continuing the large expansion in 2008. This demonstrates the value of the hospitality sector as an employer in Finland whilst wider employment opportunities fell. Hospitality continued to invest and expand in job opportunities.

Real Net and Gross disposable income per capita EUR, 2000-2010

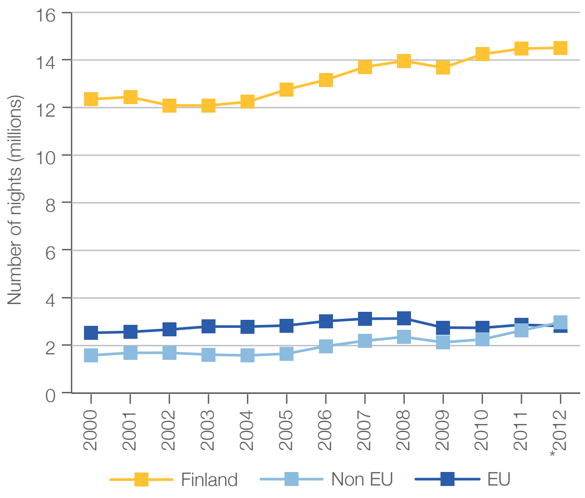


Source: Eurostat

Income per capita in Finland continued to grow steadily throughout the decade at around 5% per year with little noticeable effect of the recession (3.2% growth between 2008 and 2009).

More recently consumption has been held up with a reduction in marginal savings. This is important for the hospitality sector and wider economy generally, as sustained domestic consumption has provided a positive stimulus to growth against a backdrop of weakening demand from other EU countries.

Number of nights spent in all accommodation establishments, 2000-2012



Source: Statistics Finland
**2012 is a forecast figure*

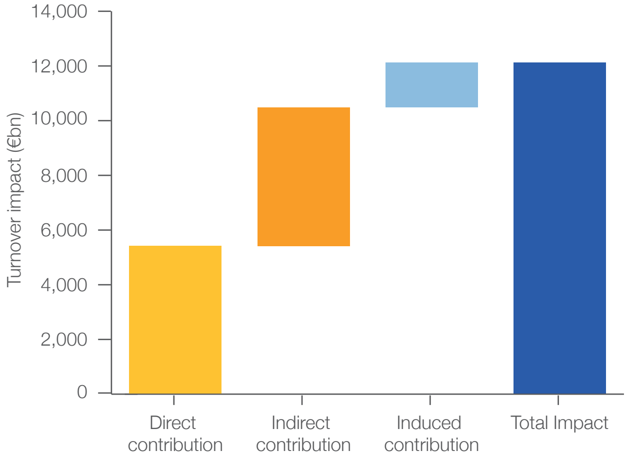
Tourism in Finland is dominated by domestic travel. The number of nights spent in accommodation establishments has recovered well since the recession in 2008-2009, where a modest fall was experienced.

The number of visitors from the EU remains relatively low (and has actually fallen since 2008), but has been, to some extent, compensated for by increasing numbers of visitors from overseas. Primarily this increase has been from Russian visitors, reaching 1.5m nights in 2012. There has also been an increase in the number of nights spent by visitors from Asia, with the number of Chinese visitors exceeding 100,000 in 2012.

Economic Contribution of the hospitality sector

The total turnover supported by the Finnish hospitality sector in 2010 is €12.1bn, 6.8% of total output. This equates to a value added to GDP of €5.0bn, 2.8% of the total. For every €1 spent by the sector, an additional €1.24 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of 116,500 jobs are supported by the Finnish hospitality sector, representing 4.8% of the total workforce.

Revenue of the hospitality sector, 2010

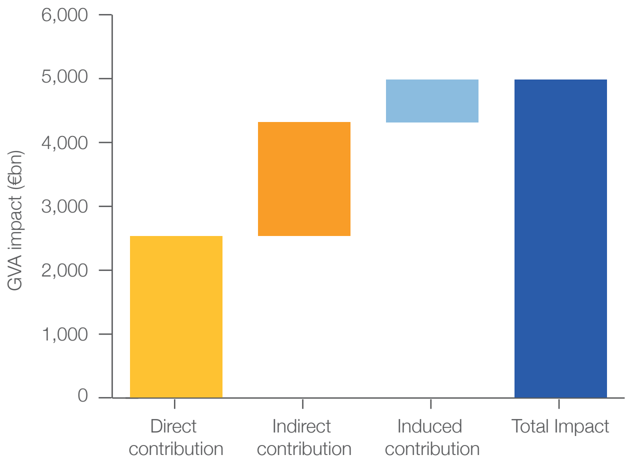


Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector is €12.1bn, which equates to approximately 6.8% of total output. Of this, €5.4bn is directly contributed by the hospitality sector itself.

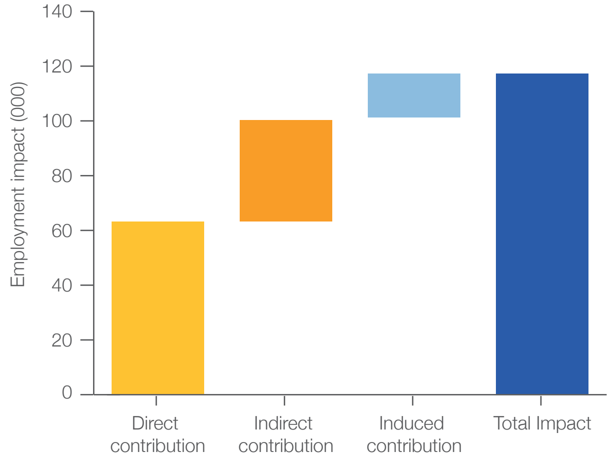
Finland has a relatively large indirect contribution (with an 'indirect' turnover multiplier of 1.94 meaning that for every €1 spent in the hospitality sector a further €0.94 is spent in the supply chain) and a relatively small induced contribution. This indicates that the Finnish hospitality sector is likely to make use of domestic supply chains rather than importing inputs from other countries. This makes the hospitality sector particularly important from a wider economic perspective.

GDP impact of hospitality sector, 2010



The total GVA of the hospitality sector is estimated at €5.0bn. In 2010 this represented around 2.8% of total Finnish GDP.

Employment impact of the hospitality sector, 2010



In total the hospitality sector directly supported 116,500 jobs in 2010, representing 4.8% of the workforce. Of these, 63,300 were directly employed by the sector.

Regulation / Taxation

Finland has the highest excise duty on beer in Europe. There have been several increases in excise duty on beer, wine and spirits since 2008. Finland has also re-introduced a duty on ice-cream and confectionery products and significantly increased the rate and broadened the coverage of duty on soft drinks.

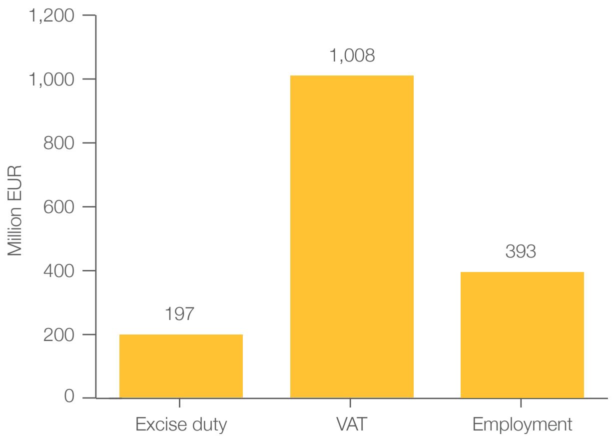
The standard rate of VAT has increased from 23% to 24%, and the reduced rates for hotels and restaurants (food and non-alcoholic beverages) increased from 9% to 10% and from 13% to 14% respectively in the same year. These rises are typically linked to the government's austerity plans as the country aims to reduce budget deficits going forward.

Legislation restricting and then banning smoking in hospitality establishments came into place in 2010 and was further strengthened in 2010. This has forced operators to invest in outside space or to adapt special zones for smokers if they wish to negate any potential negative impact upon trade resulting from the ban.

Tax Receipts

In excise duty, VAT and employment taxes (employee and employer contributions) alone, the hospitality sector directly contributed around €1.6bn in tax receipts in 2010. Given the relatively high rates, gross VAT receipts (VAT deductions are not included) account for around 63% of this total, with employee related taxes accounting for a further 25%.

Tax receipts by type, 2010



Source: EY calculations

Excise Duty

Finland's excise duty on beer is currently the highest in Europe at €29.9 per % abv/hl, and it has increased by 40% since 2008. There were several increases in excise duties on beer, wine and spirits through 2008 and 2009 and the most recent increases were at the start of 2012. Duty on wine is €312/hl and is €4,340/hl pure alcohol on spirits.

Reduced rates of duty are available for small producers and lower alcohol content products.

VAT and Reduced rates

VAT rates increased by 1 percentage point from the first of January 2013. The standard VAT rate in Finland is now 24%. A reduced rate of 14% applies to food, restaurant and catering services; and a VAT rate of 10% applies to accommodation provision. The reduced rates do not apply to alcoholic beverages sales in restaurants.

The rate increase has been justified on the basis of the government's austerity package to reduce the deficit and preserve the country's AAA credit rating.

Other taxes

When Finland joined the Euro in 1999 it abolished a duty equivalent to €0.58 per kilogram of sweets. In 2011 this duty was restored at a higher rate of €0.75 per kg. This tax applies to ice cream and sweets, but not to biscuits and buns.

The existing excise duty on soft drinks was also increased (from 4.5 cents to 7.5 cents per litre) and its scope was widened to cover further categories of beverages.

Following on from the Danish implementation (which has since been reversed) of the first tax on saturated fat, Finland (and Sweden) is considering implementing a similar tax.

Finland imposes a charge on beverage packages of €51 per hectolitre of product. This duty is waived for packaging that is part of a deposit scheme.

In 2007 Alcohol laws in Finland were substantially revised, including changes to labelling, stricter advertising controls, and tighter regulations concerning happy hour and bulk purchase promotions.

Hospitality sector in focus

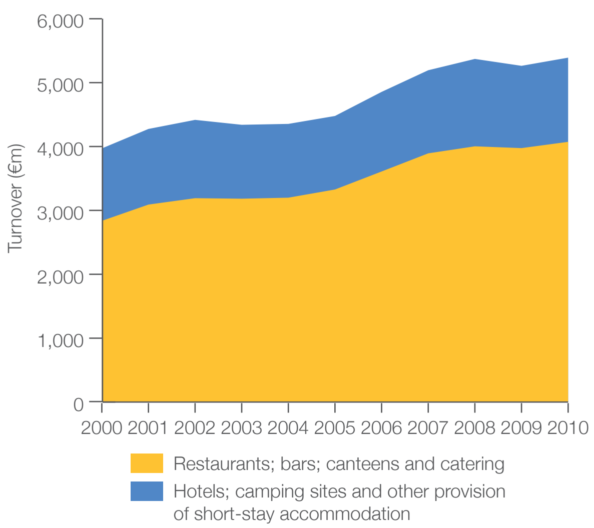
The hospitality sector is dominated by restaurants (54% of total turnover), hotels (22%), and canteens and catering (17%). The sector has been more robust than the economy as a whole in the last few years, with restaurants exhibiting continued, albeit slower, growth in 2009 and 2010. Since neighbouring Estonia joined the EU there has been increasing importation of alcoholic beverages by passengers from Estonia affecting sales via the domestic hospitality sector.

Restaurants' continued growth reflects the increase in disposable incomes during the recession and favourable introduction of a reduced rate of VAT. The sub-sector's relative buoyancy may begin to fall if recent difficulties in export markets result in reductions in employment or disposable income.

Alcoholic beverages sales within the hospitality sector have faced a reduction in recent years, with the proportion of sales in the off-trade increasing (off-trade share has increased by 10 percentage points since 2003). This shift towards off-trade sales reduces the overall economic impact of the sector, as output and employment benefits associated with the on-trade are foregone.

Hotels have shown the greatest signs of being affected by the 2008-2009 recession, with reductions in most key indicators. However, increased inbound visitors from Russia and Asia in recent years have compensated for the reduction in visitors from relatively stagnant European economies and the limited development of domestic tourism.

Turnover in the hospitality sector

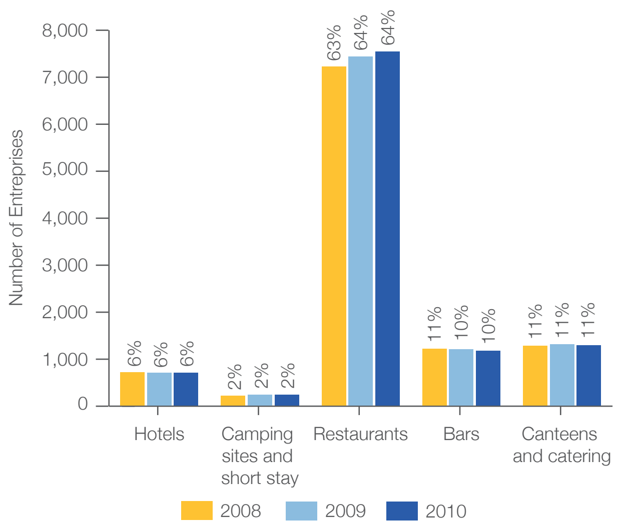


Source: Eurostat

The hospitality sector grew strongly from 2004 to 2010, experiencing only a slight dip in turnover during 2009. In total, the sector reached a peak in 2010, generating turnover of €5.39bn.

This reflects the robustness of household incomes and an increase in tourism from outside of the EU. The recession was felt worst, although remained comparatively mild, amongst accommodation providers, with a reduction in turnover of 6%. Catering providers experienced only a slight (<1%) reduction in total turnover between 2008 and 2009.

Enterprises in the hospitality sector



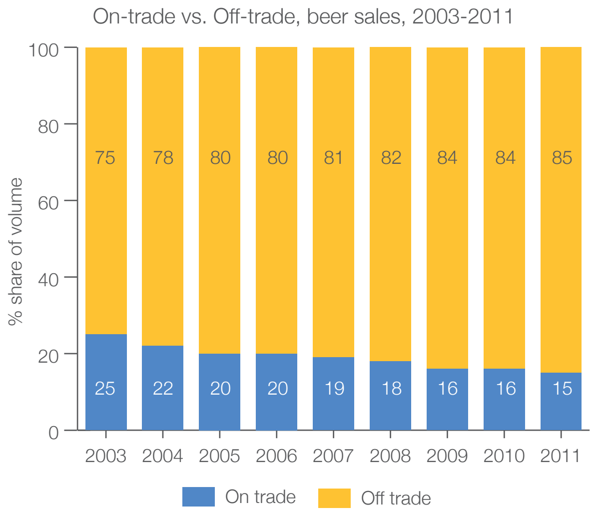
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Finland has a comparatively large proportion of canteens and catering enterprises, and a relatively low proportion of bars. This may partly reflect the classification of establishments but also the proportion of alcohol sold in the off-trade.

The number of establishments in the sector did not change considerably between 2008 and 2010 with the exception of continued growth in the number of restaurants, which rose from around 7,200 to 7,500 in the three year period; a net increase of around 2 restaurants per week.

On-trade vs. Off-trade



Source: The Brewers of Europe

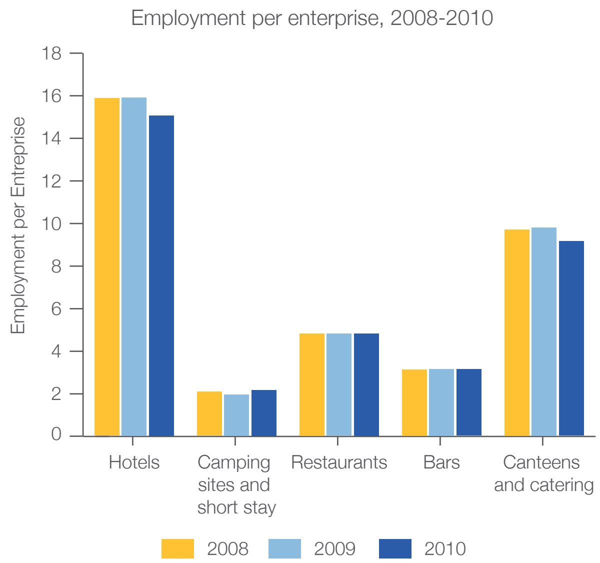
As with other Nordic and Baltic countries the majority of beer is traded for consumption off-premises. This trend has increased in recent years. This may reflect the high price of drinks and the increases in excise duty over this period, making on-trade consumption relatively more expensive so that consumers may wish to buy the same amount of alcoholic beverages, but instead of paying extra in the on-trade they buy in the off-trade. This trend reduces any wider economic benefits of their consumption.

It is unlikely that household income changes are responsible for this shift, since it appears to be a longer term trend, and disposable income was relatively robust during the recession.

Since Estonia joined the EU there has also been increasing importation of alcoholic beverages by passengers from Estonia affecting sales via the domestic hospitality sector. In 2010, 62 million litres of beer was imported compared to 6.6 million in 2000. This has significant implications for on-trade sales in Finland as well as the total tax returns from alcoholic beverages sales generally.

Employment in the hospitality sector

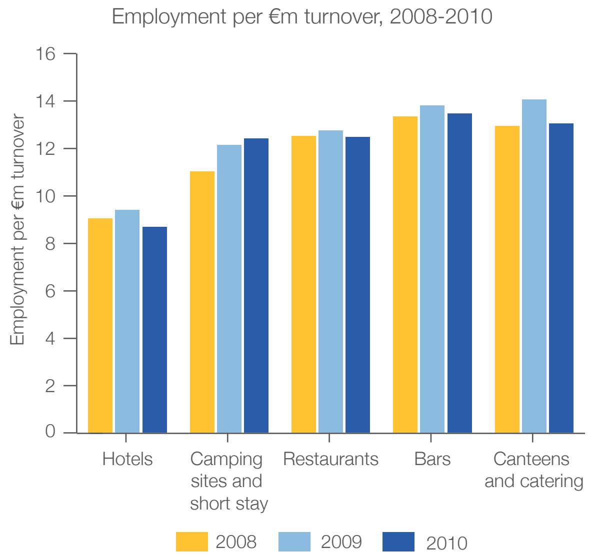
The hospitality sector employed over 63,300 people in 2010 and supported a further 53,200 jobs elsewhere in the economy. This equates to almost 5% of the total workforce. In 2010, 57% were employed in restaurants, 18% in canteens and catering, and 16% in hotels.



Source: Eurostat

Hotels and canteens, the largest employers, reduced the average size of their workforces during 2010. Restaurants, bars and campsites were able to retain broadly constant numbers of staff per enterprise.

Total employment remained relatively constant with the reduction in the number of employees in hotels offset by increases in the other sub-sectors. In particular, the increase in the number of restaurants has driven an increase in employment opportunities.



Source: Eurostat

Labour productivity in the sector has remained relatively constant with the exception of an increase in productivity in hotels, representative of the reduction in the workforce (6% from 2008 to 2010) exceeding that of turnover (4%). This reflects the fact that hotels suffered more than others during the 2009 downturn, and thus faced greater pressure to cut operating costs.

Enterprise Focus

BARS

Bars represent a small proportion of total turnover in the sector (5% in 2010). This reflects the pattern of largely off-trade beer consumption. This trend may have been exacerbated by recent increases in excise duties on alcoholic beverages.

Bars and night establishments in particular have faced weakening demand, and revisions to regulations concerning opening hours; happy hour advertising and pricing have also influenced the sub-sector.

RESTAURANTS

For restaurants, turnover, employment, wages and the number of establishments have increased over the 2000-2010 period. The sub-sector grew fastest between 2004 and 2007 with a marked increase in the number of establishments in 2004 reversing a decline up to that point.

The restaurant sub-sector bore the recession relatively well with a continued increase in all of the key indicators listed above, albeit at a slower rate.

HOTELS

Total turnover for hotels grew more steadily over the decade, whilst employment was generally falling, with an exceptional increase in 2008 before a continued reduction during 2009 and 2010.

Comparatively weak growth in domestic tourism and from traditional EU markets has been offset by increases in tourists from Russia and the Far East.

Hotels fared worse than the rest of the sector during the recession with reductions in turnover, employment and the number of enterprises. Turnover and average wages recovered to exceed 2008 levels in 2010, however continued reductions in employment is evidence of continued restructuring in 2010.

France

France

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**3.0%**	
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**5.1%**	

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€178.3bn** (9.2% of the total)
GDP	**€80.1bn** (4.1% of the total)
Employment	**1.7m** (6.6% of the total)

Total tax contribution of hospitality **€21.9bn**

Excise	**€0.2bn** (1.0% of the total)
VAT	**€13.2bn** (60.0% of the total)
Employment	**€8.5bn** (39.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.22** is spent in the wider economy.

Key Messages

- The French hospitality sector has become an increasingly important contributor to overall economic growth.
- In response to the wider economic downturn in 2009 the government extended the reduced rate of VAT (5.5%) to food and beverages sold in the hospitality sector. As a result, the number of restaurants and bars grew by 8% and an estimated 29,500 jobs were created by the end of 2010.
- Recent increases in the reduced VAT rate and a significant rise in beer excise duties risks reversing the recovery which was stimulated by the initial policy intervention.

Summary

France's economy grew at an average annual growth rate of 3.0% between 2000 and 2010, with the hospitality sector becoming ever more important, growing at 5.1% per annum over the same period. Similarly to other European countries, France's economy faced a downturn in 2009 and has witnessed relatively stagnant growth in output and employment in the subsequent years. During this period the hospitality sector has continued to grow the number of jobs it creates, highlighting the crucial role the sector has to play in the French economic recovery.

The French hospitality sector is currently subject to a standard rate of VAT of 19.6% on alcoholic beverages, and a reduced rate of 7% on accommodation and food served in hotels and restaurants. This reduced rate was increased from 5.5% to 7% in 2012 and is expected to further rise to 10% in 2014. Excise duties on beer have increased by 180% since 2008. The changes in wine and spirits duty have been smaller over the same period, at 8% and 16% respectively.

The restaurant sub-sector is the largest in France's hospitality sector, accounting for 53% of total hospitality sector turnover and 59% of employment in 2010. The extension of the reduced rate (5.5% at the time) in 2009 provided a significant boost to restaurant operators, with turnover increasing by around 10% between 2009 and 2010. The hotel sub-sector has witnessed a more challenging environment however, with a loss of over two establishments per day in the period.

Trading conditions in the French hospitality sector remain challenging going forward. Employment creation at a national level is slow and consumer confidence remains weak. Whilst overall consumer spending is expected to fall in the short term, the hospitality sector has previously demonstrated its ability to deliver growth and employment during tough economic times.

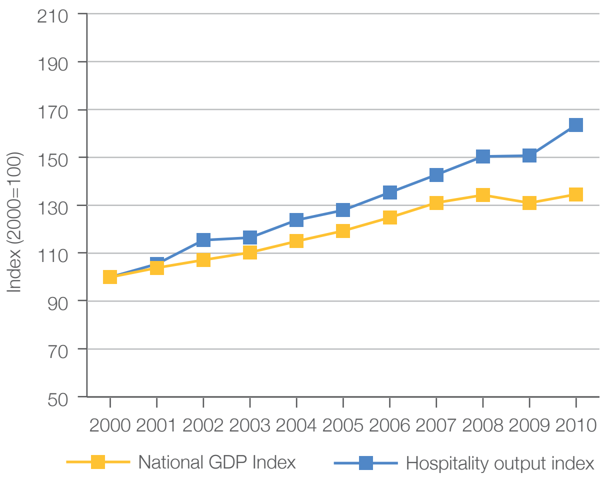
Economy Overview

Over the 2000 to 2010 period, France's economy grew at an average annual rate of 3.0%. Over the same period, the hospitality sector made an increasingly large contribution, expanding (in turnover terms) at around 5.1% per annum.

As was the case for many other countries in Europe, GDP in France declined in 2009 and has remained relatively stagnant since. The global economic downturn and subsequent Euro-crisis have weakened demand in France's traditional export markets, dampened tourism demand and increased domestic unemployment.

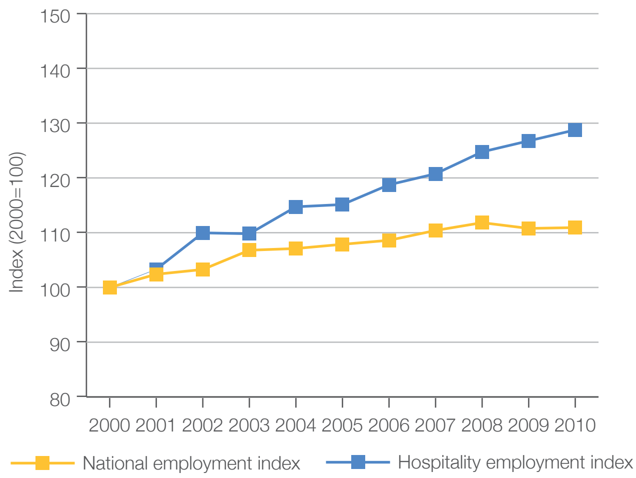
Against a slow economic recovery, the French hospitality sector has been a relative success story; turnover grew by 8.5% in 2010 to peak levels, supported by the extension of reduced VAT rates to food sales in the sector and resilient to slowing disposable income levels. The reduced VAT rates assisted operators in improving the affordability of eating out, in a period of wider pressures on consumption. In delivering this recovery the sector has continued to grow total levels of employment, even where national employment levels have fallen.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

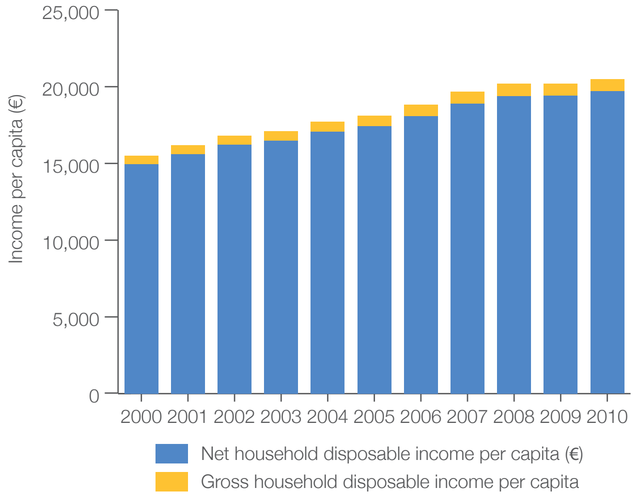
Over the 2000 to 2010 period, the growth of France's hospitality sector has outpaced that of the economy as a whole, with the hospitality sector growing at an average annual growth rate of 5.1% compared to a 3.0% growth in France as a whole.

Inflation in France over the 2000 to 2010 period has been relatively low, with an average annual growth rate of 1.8%. Adjusting for inflation, average GDP growth over the period was 1.2%, and growth in the hospitality sector was 3.3%.

The French hospitality sector also outpaced the economy as a whole in terms of employment in the period. This has been particularly important in the post 2008 period; as general unemployment grew the hospitality sector was able to create job opportunities, and the wider benefits that brings.

In periods of economic uncertainty the ability of a key sector, such as hospitality, to continue to grow and create flexible employment opportunities is crucial. Employees generate further wealth by spending their wages and through their tax contributions.

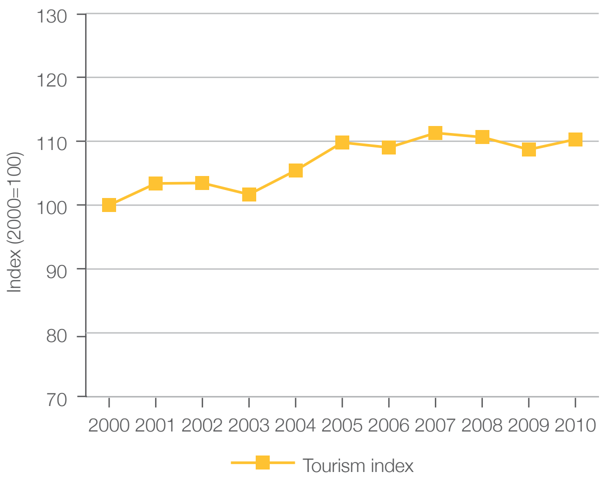
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Over the period, net real disposable income has experienced a positive growth trend, albeit with slower growth in net disposable income from 2008 onwards. This weakening in income growth places pressure on consumer spending, and their discretionary spending in particular. In this respect, the success of the hospitality sector will depend heavily on its ability to deliver affordability to consumers (something which the expansion of reduced VAT rates in 2009 helped to achieve).

Tourism index, 2000-2010



Source: Eurostat

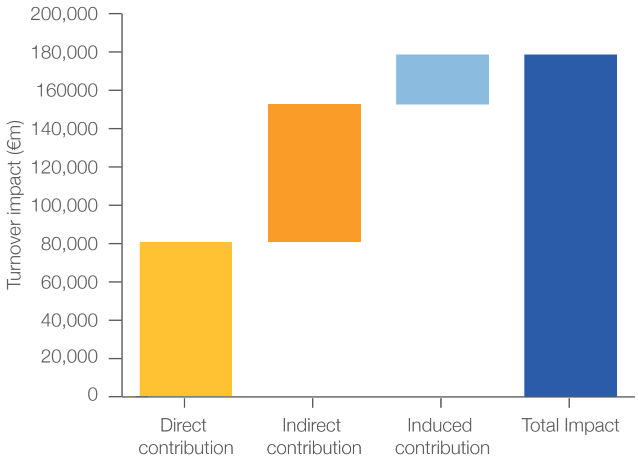
France is a global tourist destination and has a mature sector, delivering a vast range of experiences across the country (from city breaks to skiing and beach resorts). As such, the growth in tourism across the period is modest when compared with many European countries.

Tourism grew by around 8% between 2003 and 2005 and has remained relatively stable since, with relatively strong signs of recovery in 2010 following a fall in the previous year.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in France is estimated to be €178.3bn. France's hospitality sector contributes €80.1bn of value added to the economy, equivalent to 4.1% of GDP and supports approximately 1.7m employees in total, including direct, indirect and induced impacts. The economic contribution of the hospitality sector in France is relatively high compared with the European average. For every €1 spent by the sector, an additional €1.22 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

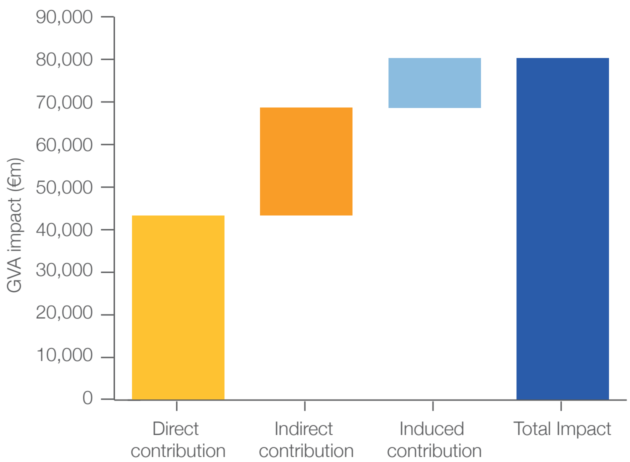


Source: Eurostat, EY calculations

The total turnover supported by the French hospitality sector was €178.3bn in 2010, equivalent to 9.2% of the total. The scale of this impact is higher than the European average.

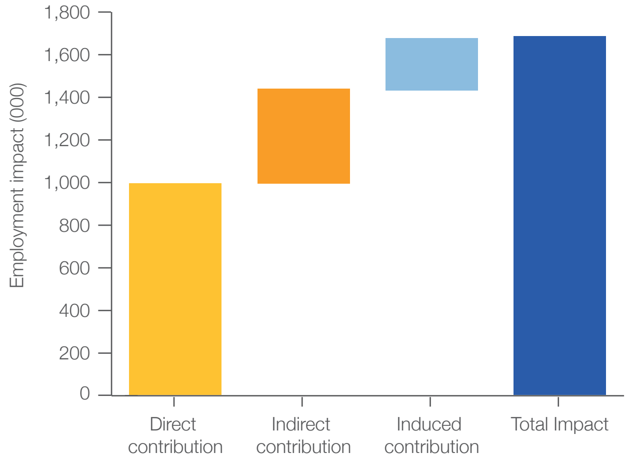
France's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.90, meaning that for every €1 spent by the hospitality sector an additional €0.90 of demand is generated in its supply chain. The indirect multiplier is relatively high for the hospitality sector in France, due to a high proportion of its supply chain being domestic, relative to other countries. This demonstrates the wider importance of the sector, in terms of the food and drink producers it supports across the country.

GDP impact of hospitality sector, 2010



The total value added of the French hospitality sector is €80.1bn. This is equivalent to 4.1% of GDP. Similarly to the turnover impact, the value added impact of the hospitality sector in France is greater than the European average.

Employment impact of the hospitality sector, 2010



In 2010, the French hospitality sector directly employed almost 993,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to French employment is an estimated 1.7m jobs. This is equivalent to almost 7% of total French employment.

Regulation / Taxation

The French hospitality sector is a significant contributor to overall government revenues, generating an estimated €21.9bn in tax receipts through excise duties, VAT and employment related taxes alone. The current standard rate of VAT in France is 19.6%, expected to increase to 20% in 2014.

The reduced VAT rate of 5.5% was historically applied to accommodation and extended, in 2009, to food sales, particularly benefiting restaurants. The impact of this rate has subsequently been restricted, following increases to 7% in 2012 and a planned increase to 10% in 2014.

Excise duties on beer have increased by 180% since 2008. The changes in wine and spirits duty have been smaller over the same period, at 8% and 16% respectively. A tourism tax applies in France which is based on the hotel category (ranges up to €1.50 per night). A tax on soft drinks was also introduced in 2012.

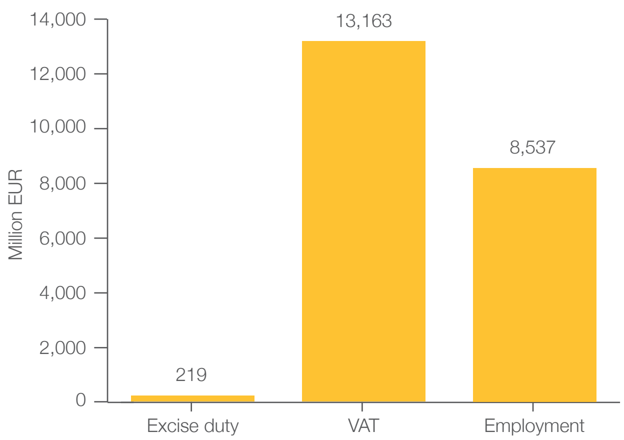
Whilst excise and VAT duties remain relatively low in comparison to other European countries, current plans to increase the reduced rate of VAT further, alongside other specific taxes (such as the tourist tax and soft drink tax), add to the overall burden on operators, who have delivered strong growth in turnover and employment since the recession in 2009.

Tax Receipts

The French hospitality sector is estimated to have contributed almost €21.9bn to tax revenues in 2010 from excise duty, VAT and employment taxes. Of this, €219m was collected through excise duty, arising from the sale of alcoholic beverages through on-trade channels.

The French government also collected €13.2bn in revenue from gross VAT receipts (VAT deductions are not accounted for) on hotels and restaurants, which was calculated by applying the relevant VAT rates to turnover from the sector.

Tax receipts by type, 2010



Source: EY calculations

Tax receipts related to employment in the sector totaled over €8.5bn in 2010. This includes income taxes and social security contributions from both employees and employers.

Excise Duty

Excise duties on alcoholic beverages in France have generally risen since 2008. The largest increase was in beer, which rose 160% at the start of 2013 to €7.2 per % abv / hl, resulting in a total increase of almost 180% since 2008. The changes in wine and spirits were smaller, at 8% and 16% respectively over this six year period. The large rise in beer duty has a particularly large impact upon the bar and café sub-sectors.

At the start of 2013, the duty on wine was set at €3.66 /hl and on spirits at €1,689.05 /hl pure alcohol.

VAT and Reduced rates

The standard VAT rate in France remained at 19.6% between 2000 and 2010, with a planned increase to 20% in January 2014.

A reduced rate of VAT of 7% is currently applied to accommodation and food and non-alcoholic beverages served in hospitality establishments. This was increased from 5.5% in January 2012, with a further increase to 10% planned for January 2014.

Prior to 2009, the reduced VAT rate (then at 5.5%) was applied to accommodation only. This was extended to restaurants from 1st July 2009 in return for a commitment from the restaurant sub-sector to reduce prices, increase employment, and modernise the sub-sector through investment.

There has since been some uncertainty with regards to the continued application of the reduced rate to the restaurant sub-sector, which may help to damage the resilience that operators have shown to the economic downturn.

Other taxes

A tourism tax is also applied in the hospitality sector in France. This varies depending on the type of establishment, with the rate ranging from €0.20 per night (for camping and the 1 star hotel categories) to €1.50 per night (for 4 and 5 star hotel categories).

In September 2011, the French Parliament adopted a new luxury hotel tax of 2% on hotel rooms costing more than €200. After strong protests from the hotel sub-sector, the French Parliament voted to withdraw the tax in November 2011.

In August 2011, the French government announced the possible introduction of a tax to apply on sugar-sweetened drinks. In January 2012, a soft drinks tax of €7.16 per hectolitre was introduced to apply to all beverages with added sugar or with artificial sweeteners (fruit juices with added sugars, water, carbonated drinks containing added sugar).

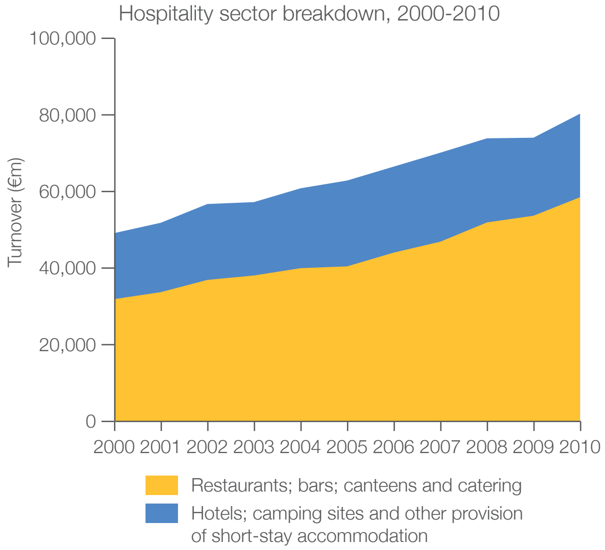
Hospitality sector in focus

The hospitality sector in France has grown at an average rate of 5.1% per annum in nominal terms between 2000 and 2010, with the food and beverage sub-sector accounting for approximately 73% of the total turnover. French restaurants are the largest sub-sector in the French hospitality sector by some margin, accounting for 53% of total turnover and 59% of employment in 2010.

France has a particularly strong restaurant and café culture which has shown particular resilience during the economic downturn. Consumers have shown that demand is still strong as long as products remain affordable, in light of wider pressure on disposable incomes and discretionary spending. In this respect the extension of reduced rates of VAT to food and non-alcoholic beverages served in the sub-sector supported overall performance by directly impacting affordability, which can be seen in the performance of restaurants, where turnover grew by 10% in 2010.

The bars sub-sector in France is relatively small in terms of both turnover and employment relative to other sub-sectors, representing 8% of turnover in 2010. This may be linked to a relatively high proportion of alcoholic beverages which are purchased off-trade (78% in 2011).

Turnover in the hospitality sector

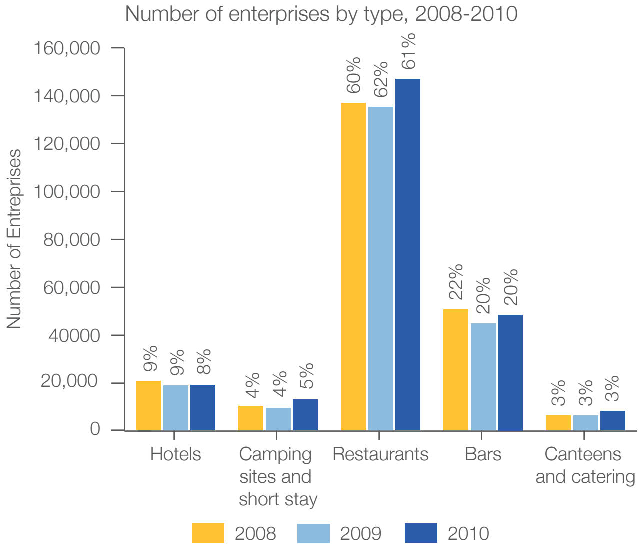


Source: Eurostat

The hospitality sector in France experienced a decline in turnover in 2009, but subsequently recovered strongly in 2010, due to, amongst other things, the application of a reduced VAT rate to the restaurant sub-sector having a positive impact on competitiveness.

The food and beverage sub-sector represents the majority of turnover in the hospitality sector in France, with 73% of total turnover in 2010.

Enterprises in the hospitality sector



Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

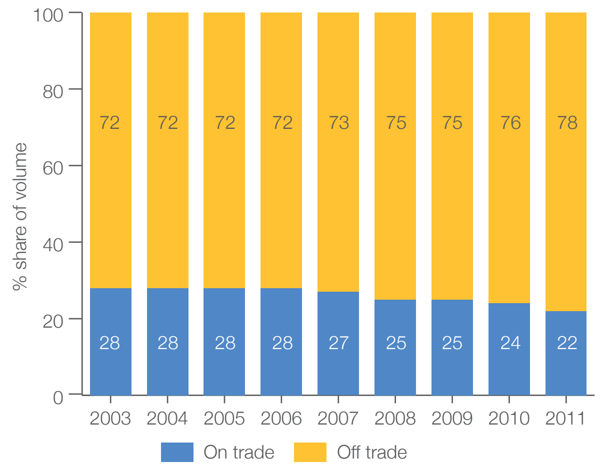
The total number of enterprises in the hospitality sector grew to around 240,000 in 2010, marginally below the 2007 peak of 250,000 but a marked recovery following the economic downturn of 2008 and 2009.

There has been a mixed picture in terms of the number of enterprises per sub-sector between 2008 and 2010. The number of hotels declined between 2008 and 2010 (to just under 19,000), with a particular impact upon the number of 1 star and 2 star category hotels. In contrast all other categories experienced an increase in enterprise numbers from 2009 to 2010, with the number of restaurants and bars growing by 8% to 147,000 and 48,000 respectively.

Of particular note has been the increase in the number of camping and short stay enterprises, growing by over 3,000 between 2009 and 2010 (37% increase) to above the 2008 level. This trend may reflect consumer trends towards the lower cost holidays the enterprises may provide.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2003-2011



Source: The Brewers of Europe

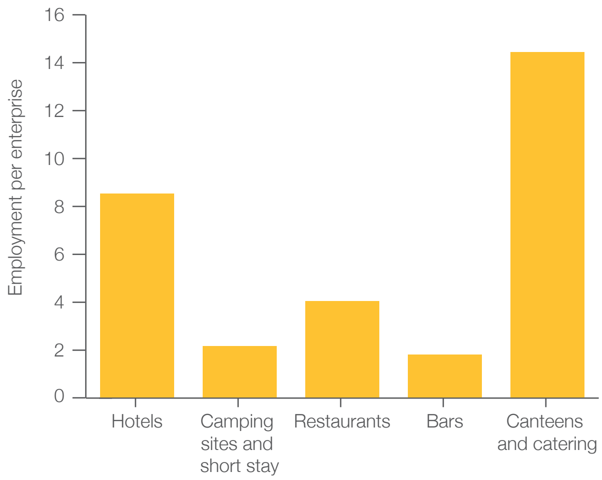
The majority of beer in France is purchased from off-trade, with only 22% being purchased in the hospitality sector in 2011. This proportion of off-trade has increased since 2006, which may be linked to the introduction of a smoking ban in 2008, and continued rises in excise duties since 2008.

Employment in the hospitality sector

Employment in the French hospitality sector has grown continually from 2000 to 2010, despite the changing economic conditions in the period.

Employment over that period peaked in 2010, at almost 993,000 employees. Some of this increase has been attributed to the commitments taken in the French restaurant sub-sector with regards to employment and working conditions as a result of the French government's agreement to reduce the VAT rate on its activities in 2009. This is thought to have created approximately 53,000 new jobs and sustained around 60,000 jobs.

Employment per enterprise, 2010



Source: Eurostat

Data on employment per enterprise in each of the sub-sectors is limited, and is only publicly available for 2010. In 2010, the canteens and catering sub-sector employed the most individuals per enterprise, with the bars sub-sector employing the least.

Enterprise Focus

BARS

Bars in France account for the second largest number of establishments of all hospitality sub-sectors (20% of all enterprises in 2010), but only 8% of total turnover and 9% of sector employment. This suggests that there are a relatively large number of small businesses in the bars sub-sector in France.

In comparison with much of Western Europe, France has a comparatively low proportion of beer sold in the on-trade. It is important to note, however, that beer consumption is also relatively low in France, with a significantly higher proportion of wine consumed than beer.

There have been several regulatory changes which are likely to have impacted bars in France. For example, demand may have been negatively impacted by a smoking ban in France which came into force for bars, restaurants, cafés and hotels in January 2008. Under the regulations, smoking rooms are allowed, but must occupy less than 20% of total floor space and abide by strict rules in terms of ventilation, service and cleaning.

Since December 2009, night-clubs can remain open until 7 in the morning. Before this, operators needed a specific authorization to be open all night. This is likely to have had a positive impact on some establishments.

In addition, since April 2007 a specific permit to serve alcoholic beverages has been made mandatory.

Trading conditions for bars are likely to remain challenging due to continued pressure on household consumption. This is likely to be exacerbated by recent increases in excise duty rates which may continue to steer consumption to the off-trade.

At a local level, minimising negative impacts on neighbouring areas in terms of noise pollution is likely to remain a challenge for bars and night-clubs going forward. Operators believe that supporting a mandatory "noise audit" for property purchases could enable positive engagement with residents in neighbouring areas.

The promotion of responsible drinking, particularly towards young people has also been identified as an opportunity for operators going forward, in terms of providing a positive social impact.

RESTAURANTS

Restaurants are the largest sub-sector in the hospitality sector in France by some margin. Restaurants accounted for 53% of sector turnover in 2010, and 59% of sector employment. The sub-sector has performed strongly since 2008, with application of a reduced VAT rate being an important driver for this growth. In the year following the introduction of the reduced VAT rate in 2009, turnover in the restaurant sub-sector grew by 10%.

The increase in the reduced rate of VAT to 10% in 2014, following the increase to 7% in 2012 will present a challenge to operators in continuing the expansion and success of the sub-sector.

A change in consumer behaviours has been identified as both an opportunity and a challenge for the restaurant sub-sector going forward. A general decrease in time dedicated to meals is stimulating demand for fast-food restaurants at the expense of more formal restaurant environments.

Restaurants will also seek to respond to a growing consumer focus on sustainability and waste management in the restaurant sub-sector.

HOTELS

In France, hotels comprise the second largest sub-sector of the hospitality sector, having contributed 20% to total hospitality sector turnover and 16% to total employment in 2010. The performance of the sub-sector has been mixed since 2008, with a decline in turnover in 2009 and a slight recovery in 2010. Over the period, turnover declined by a total of 2%.

Between 2008 and 2010 a net total of 1,600 hotels closed down, equating to over two per day.

The growth of online hotel booking and review sites has been identified as a key challenge for the hotels, with increased price competition putting pressure on margins in the sub-sector.

Hotels also view competition from bed and breakfast establishments and private apartment rentals as a future challenge. This can be witnessed in the expansion in the number of these types of establishments.

In order to respond to these issues, operators view the ability to modernise as a key opportunity going forward. This would involve adapting their services to meet or exceed their guests' expectations as a result of the new classification system which has recently been introduced.

The cost of compliance with regulation continues to be a key challenge. New standards on accessibility of public places to disabled people were adopted in 2005, which hotels are required to comply with before 2015.

Germany

Germany

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**2.0%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**4.8%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€140.0bn** (5.6% of the total)
GDP	**€67.6bn** (2.7% of the total)
Employment	**2.9m** (8.0% of the total)

Total tax contribution of hospitality	**€15.2bn**

Excise	**€0.5bn** (3.0% of the total)
VAT	**€10.2bn** (67.0% of the total)
Employment	**€4.5bn** (30.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.20** is spent in the wider economy.

Key Messages

- Throughout the 2000 to 2010 period the German hospitality sector has become an increasingly important contributor of economic growth and employment.
- The hospitality sector has responded well to the economic downturn, expanding (in turnover and enterprise terms) by 25% between 2008 and 2010.
- The extension of the reduced rate of VAT (7%) to accommodation in 2010 helped to stimulate 6% growth in overall stays by 2011. A trend since then for city level bed taxes threatens to dilute the impact of the national policy.

Summary

The German economy has experienced relatively modest growth in the last 10 years, with GDP growing at around 2.0% per annum between 2000 and 2010. The hospitality sector has become increasingly important to the German economic recovery, growing, in nominal terms, at more than twice the rate of the economy as a whole (4.8% per annum) in the period, and in 2009/10 in particular.

German restaurants and bars are currently subject to the standard rate of VAT (19% in 2011), which increased by 3 percentage points from 16% to 19% in 2007. A reduced rate of 7% was implemented for accommodation in 2010, aimed at increasing the international competitiveness of the German hotel sub-sector. In 2010, a number of cities across Germany introduced bed taxes on accommodation which range up to €5 per night or up to 5% per bill. This trend has continued with other major visitor centres introducing (or planning to introduce) similar taxes.

The hospitality sector grew at a rate of 4.8%, in nominal turnover terms, between 2000 and 2010, reaching €63.6 bn by the end of the period. Restaurants account for the largest share of the hospitality sector in Germany, at 45% of turnover in 2010, with hotels representing a further 31% and bars 9%. Despite wider economic challenges, the hospitality sector has responded strongly in 2009 and 2010, with growth in total turnover and enterprises of 25% from 2008 levels. In particular, restaurants have outperformed the wider economy, delivering an additional 380 enterprises and 4,200 new jobs per week by the end of 2010.

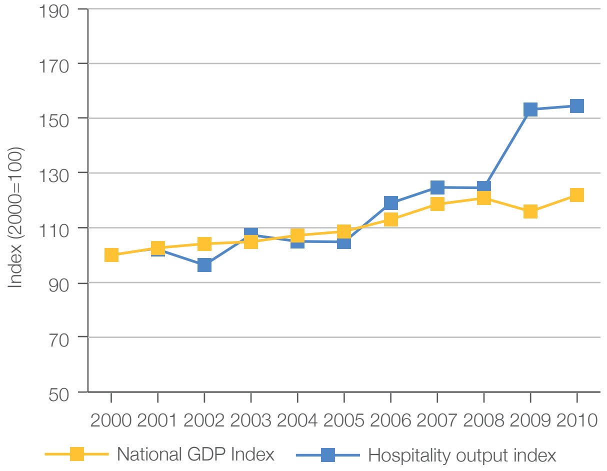
The application of reduced VAT rates in 2010 had a strong effect upon hotel performance, with overall stays growing by 6% by the end of 2011. The trend towards local bed taxes poses a risk that the benefit from the reduced VAT rate of 7% will be eroded.

Economy Overview

Primarily due to a period of relatively stagnant growth in the first half of the decade, the German economy has been one of the slowest-growing economies in Europe in the last 10 years as a whole, with average annual GDP growth of 2.0% between 2000 and 2010. The hospitality sector has become increasingly important to the German economy as it seeks to stimulate a wider recovery. Between 2000 and 2010 the hospitality sector grew at more than twice the rate of the economy as a whole (4.8% per annum), rising in 2009 and 2010 in particular (against a challenging economic backdrop).

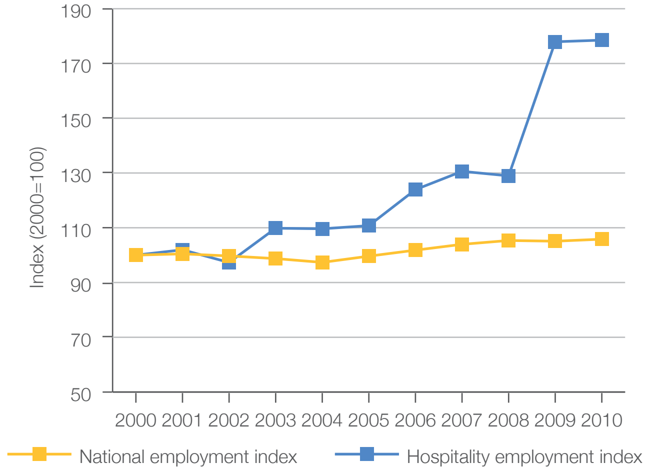
Whilst the economic downturn impacted growth at a national level, Germany has remained fairly resilient to the increases in unemployment and falls in disposable incomes seen elsewhere in Europe. This has helped to sustain the increase in domestic consumption and subsequent growth in the hospitality sector. The ability of the sector to expand in employment terms has eased the pressure on other employer groups impacted by weakening growth in major export markets, helping to sustain the German economy throughout the downturn.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

Over the period, Germany's nominal GDP grew at an average annual growth rate of 2.0%, the second lowest in Europe. Nominal GDP steadily rose to a peak in 2008, before a decline in 2009 attributable to the global economic crisis.

Hospitality experienced a more variable growth path over the same period: a fall in output in 2002 followed by rapid growth in 2006 and a large spike in 2009, maintained in 2010.

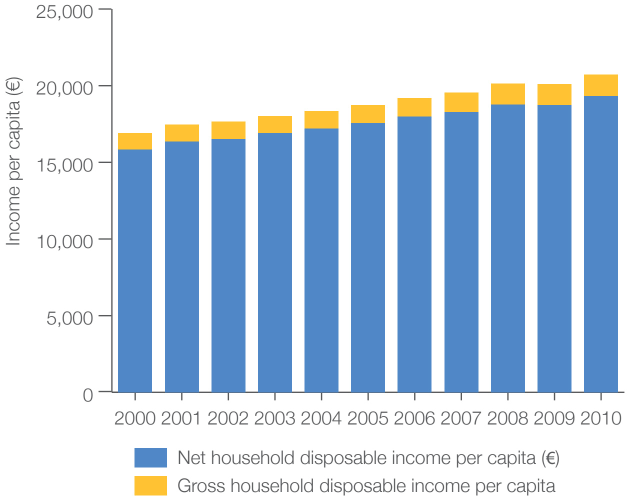
Following the Football World Cup Germany hosted in 2006 the growth in the hospitality sector between 2006 and 2010 outperformed the broader growth trend in the wider economy

Inflation in Germany over the 2000 to 2010 period has grown at an average annual rate of 1.7%. Adjusting for inflation, average GDP growth over the period was 0.3%, and growth in the hospitality sector was 3.1%.

National employment has experienced relatively steady growth over the period, with an increase in employment following the labour market reforms in 2003/2004.

Employment in the hospitality sector was more volatile. The sector saw rapid growth in employment in 2006 and similarly to output, significant increases in 2009, maintained through to 2010.

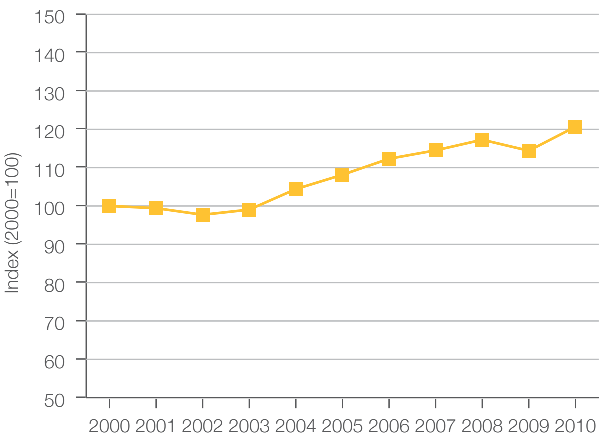
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Real net disposable incomes have grown between 2000 and 2010. The resilience of disposable incomes to the economic downturn is particularly important for the hospitality sector, helping to drive domestic consumption.

Tourism index, 2000-2010



Source: Eurostat

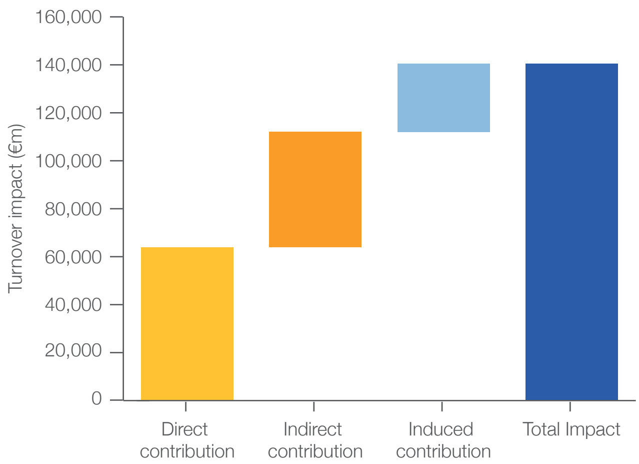
Tourism fell in Germany in 2002, which may have been a reaction to the September 2001 terrorist attacks in America, amongst other things. After this, tourism grew steadily to 2008 before a downturn in 2009, likely due to the challenging economic environment domestically and in Germany's key visitor markets.

Tourism appears to have recovered strongly to 2010; the reduction in VAT rates applicable to accommodation has been implemented to further support this recovery.

Economic Contribution of the hospitality sector

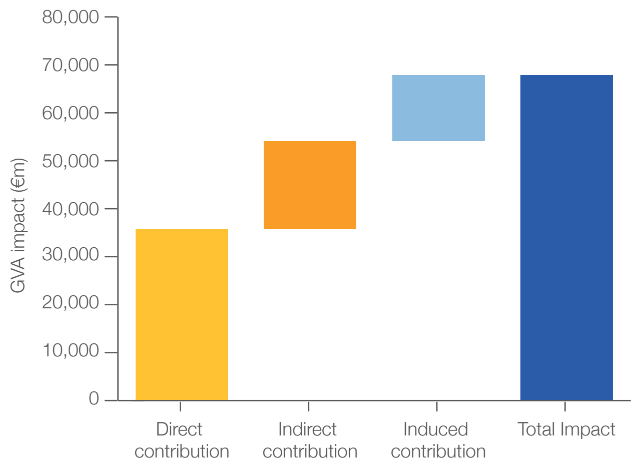
The total turnover supported by the German hospitality sector in 2010 was €140.0bn. This equates to a total value added of €67.6bn, equivalent to 2.7% of total GDP. In delivering this the sector supports approximately 2.9m employees, almost 8% of the total German workforce (this includes 1.9m who are directly employed by the sector). For every €1 spent by the sector, an additional €1.20 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

The total turnover supported by the sector was €140bn in 2010, which is equivalent to 5.6% of the total. The scale of this impact is lower than the European average.

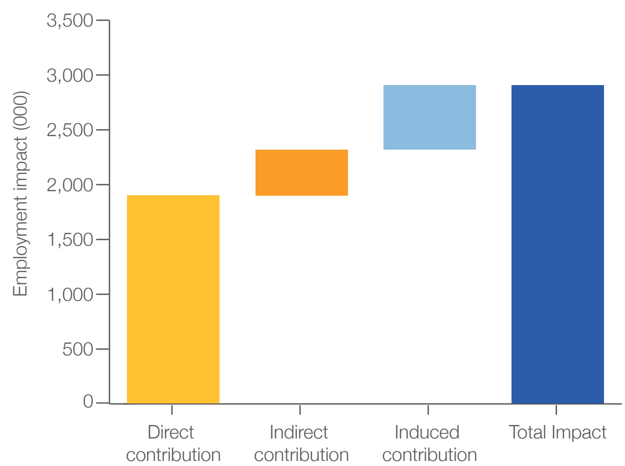
Germany's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.76, so for every €1 spent by the sector, an additional €0.76 is spent in the supply chain. The indirect multiplier is relatively high in Germany, suggesting that a high proportion of domestically produced inputs are used in its supply chain, relative to other countries.

The impact upon the supply chain highlights the importance of the hospitality sector to the wider German economy, stimulating demand for domestic food and beverage producers and the investment and employment that comes with it.

The turnover supported by the German hospitality sector was almost €67.6bn in 2010. This is equivalent to 2.7% of GDP.

Similarly to the turnover impact, the value added impact of the hospitality sector in Germany is lower than the European average. This reflects the size of some of Germany's other key economic sectors but does not diminish the role that the hospitality sector plays in supporting wider economic growth in Germany.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

In 2010, the German hospitality sector directly employed almost 1.9m individuals. The sector employs a further 417,000 individuals through its supply chain. In total the hospitality sector supports around 2.9m jobs. This is equivalent to almost 8% of the total workforce.

Regulation / Taxation

German restaurants and bars are currently subject to the standard rate of VAT (19% in 2011), which increased by 3% from 16% in 2007. In 2010, the reduced rate of 7% was accorded to hoteliers to increase international competitiveness of the German hotel sub-sector. Beer and spirits are subject to an excise duty, which has remained at the same nominal level over the period. Wine is zero rated.

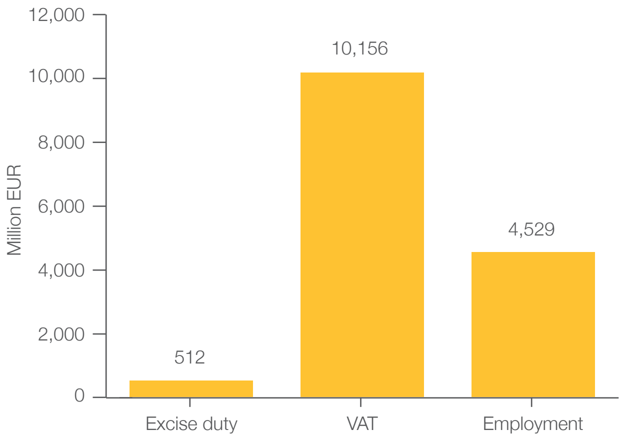
From 2010 on, a number of cities across Germany introduced bed taxes on hotel rooms. These differ by location, room rate and standard of hotel. Major cities such as Munich and Berlin are considering the introduction of bed taxes within the next few years. The responsibility for regulations on restaurants and bars was shifted from the federal to the regional level in 2006, adding regulatory and administrative burdens to restaurants and bars.

Tax Receipts

The German hospitality sector is estimated to have contributed €15.2bn to the Exchequer in 2010 from excise duty, VAT and income tax and social security contributions.

Of this, €512m was raised in excise duties arising from the sales of alcoholic beverages through on-trade channels. The German government has also collected an estimated €10.2bn in revenue from gross VAT receipts from the hospitality sector (this calculation does account for VAT deductions).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, these equated to approximately €4.5bn in 2010.

Excise Duty

Excise duty on alcohol in Germany has remained unchanged since 2008. Duty on beer is €0.79 per °Plato / hl and on spirits it is €1,303 /hl pure alcohol. Wine is zero rated.

VAT and Reduced rates

Between 2000 and 2006, the standard VAT rate in Germany remained at 16%. At the beginning of 2007, the German government increased this by 3 percentage points as part of wider objectives to reduce the budget deficit to below 3% of GDP. This standard rate of VAT currently applies to the entire hospitality sector, except for accommodation and take-away food.

In a bid to improve the competitiveness of the German hotel sub-sector, and in an endeavor to boost tourism, the government agreed to lower the VAT rate accorded to accommodation from 19% to 7% from January 1, 2010, as part of the country's growth acceleration package.

Other taxes

From 2010 on, a number of cities implemented additional local taxes ("bed taxes") in Germany, obviously in reaction to the reduction in the VAT rate, leaving local authorities scope to raise their local tax income.

A number of cities in Germany now implement bed taxes, which range from €0.25 to €5 per person per room or 5% of the bill depending on the type of accommodation, room rate and location. The introduction of these taxes distorts the impact of the national government approach to stimulate the sector, and can dilute the overall policy effectiveness.

Frankfurt, Munich and Stuttgart do not have a bed tax, however Cologne, Bremen, Hamburg and Lübeck have all introduced bed taxes in the meantime. Berlin's bed tax came into force in 2013.

Hospitality sector in focus

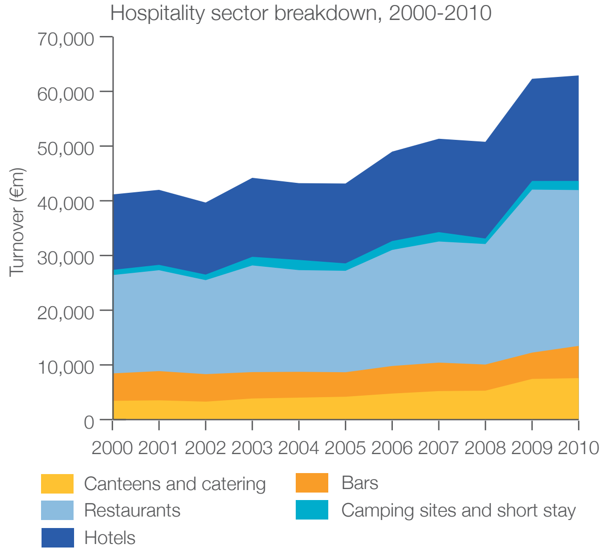
The hospitality sector grew at a rate of 4.8%, in turnover terms, between 2000 and 2010, reaching €63.6bn by the end of the period. Restaurants account for the largest share of the hospitality sector in Germany, at 45% of turnover in 2010, with hotels representing a further 31% and bars 9%. Unlike much of Europe, Germany experienced a very modest fall in performance during the financial crisis of 2008, followed by strong growth in 2009 and 2010.

Following a period of strong growth 2008 proved to be a challenging year for the sector, with increasing levels of VAT alongside the introduction of indoor smoking bans, which vary between States and are highlighted as a key factor for the 8% fall in turnover in the bar sub-sector in that year.

Despite wider economic challenges, the hospitality sector has responded strongly in 2009 and 2010, with growth in total turnover and enterprises of 25% from 2008 levels. In particular, restaurants outperformed the wider economy, delivering 30% growth in turnover and enterprises alongside a 47% increase in employment. This equates to an additional 380 enterprises and 4,200 new jobs per week.

For hotels, the return to growth equated to a 10% rise in turnover and 15% increase in employment. The application of reduced VAT rates in 2010 appears to have had a strong positive effect upon overall stays in 2010 and 2011, with growth of 6% in total domestic and international arrivals. The trend towards city level tourist taxes poses a risk that the benefit from the reduced VAT rate of 7% will be eroded.

Turnover in the hospitality sector



Source: Eurostat

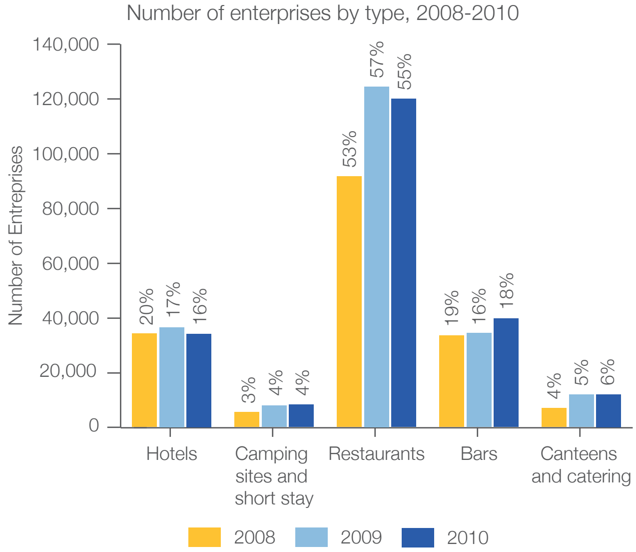
Following a modest decline in revenues in 2008, the hospitality sector has recovered strongly from the global economic downturn, with a sharp increase in turnover in 2009 and further growth, albeit at a slower pace, in 2010.

The 12 percentage point decline in the rate of VAT applicable to hotels and other types of accommodation has had a positive impact on growth in the sector in 2010, putting downward pressure on prices to stimulate demand.

The restaurant and bar sub-sectors contributed approximately 54% of the revenue in the hospitality sector in 2010. This market share has remained broadly stable over the 2000 to 2010 period. Canteens and catering grew at a faster rate than the other sub-sectors, at 8.2% per annum.

Over the 2000 to 2010 period, the share of bars out of total hospitality sector turnover has fallen from over 12% in 2000 to 9% in 2010.

Enterprises in the hospitality sector



Source: Eurostat

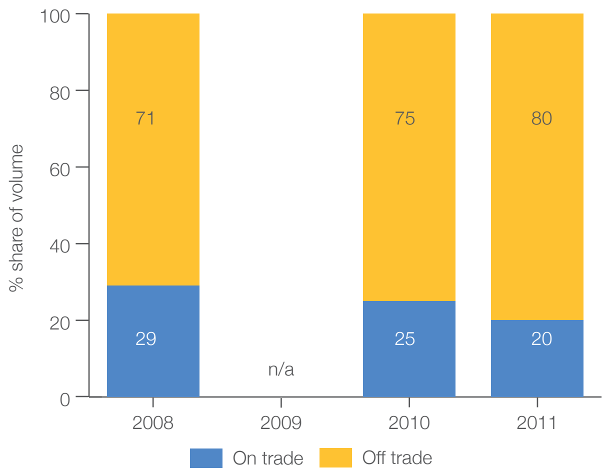
Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

In 2010 there were over 216,000 hospitality enterprises, 55% of them restaurants (120,000), 18% bars (40,000) and 15% hotels (34,000).

German operators have shown particular resilience to the wider economic environment, with growth across the sector from 2008, equating to over 400 new enterprises per week through to 2010.

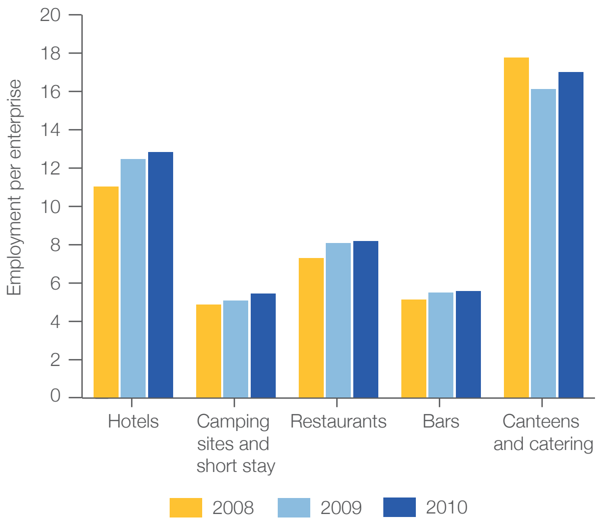
On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011



Source: The Brewers of Europe

Employment per enterprise, 2008-2010



Source: Eurostat

In Germany, the majority of beer is purchased from off-trade establishments rather than in the hospitality sector (80% in the off-trade in 2011).

There are a number of factors which may have contributed to the high share of the off-trade seen in Germany, for example, the smoking ban in 2008. A reduction in legal alcohol limits and the slowdown in growth of disposable incomes may also have contributed to a reduction in demand for drinking out.

Employment in the hospitality sector

Employment in the German hospitality sector has experienced several periods of growth over the 2000 to 2010 period. Direct employment in the sector peaked in 2010 at almost 1.9bn individuals. In 2010, 51% of hospitality employment was in restaurants, 23% in hotels and 12% in bars.

Employment in the sector is likely to have been affected by the German labour market reforms in 2003/2004. These acted to increase labour market flexibility, and thus may be a contributing factor to the strong growth in employment observed in the sector following their implementation.

The expansion of the EU in 2004 and 2007 has also increased the labour pool and helped to provide flexibility and competition in the workforce.

Employment per enterprise increased between 2008 and 2010 for all sub-sectors of the hospitality sector except for canteens and catering.

Enterprise Focus

BARS

Germany has a large bar and pub sub-sector compared to the rest of Europe. Almost 40,000 bars and pubs operated in Germany in 2010, generating 9% of hospitality's turnover. Despite the economic downturn, the number of enterprises operating has increased from 2008 to 2010.

The proportion of beer sales that are made off-trade is very high in Germany (80% in 2011). The economic crisis has led to a slowing in disposable incomes which could be a driver of high off-trade sales. Additionally, the smoking ban and reduction in legal alcohol limits has contributed to a change in consumer habits and their decision on where to consume alcoholic beverages.

RESTAURANTS

Restaurants are the largest sub-sector of hospitality by number of enterprises (120,000 operating in 2010), contributing 45% to hospitality turnover. The number of restaurants operating in Germany fell from 2009 to 2010 which could have been driven by the continued pressures on the Eurozone economy and the associated slowdown in consumer spending.

HOTELS

Hotels contribute over a third of hospitality turnover with almost 34,000 enterprises operating in the course of the year 2010, and over 435,000 employees.

In 2010, the VAT rate on hotels decreased from the standard rate of 19% to the reduced rate of 7%. The aim of this reduction in VAT was to increase the competitiveness of the German hotel sub-sector. In 2010, turnover in the accommodation sub-sector increased by over 3%, with a further 4% increase estimated in 2011. The extension of the reduced VAT rate to the sub-sector may have been a key factor in this continued growth. However, key visitor centres in Germany have recently introduced bed taxes on hotel rooms, which vary by location, room rate and standard of hotel.

This trend towards bed taxes could counteract the effects of the reduction in VAT by placing upward pressure on prices, therefore potentially negatively impacting demand in the hotels sub-sector and diluting the impact of government VAT policy.

Greece

Greece

Key Statistics

Average annual GDP growth rate, 2000 - 2009 (nominal)	**5.0%**
Hospitality sector annual growth rate, 2000 - 2009 (nominal)	**7.5%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€21.5bn** (9.7% of the total)
GDP	**€14.4bn** (6.5% of the total)
Employment	**467,000** (10.8% of the total)

Total tax contribution of hospitality	**€2.7bn**
Excise	**€0.3bn** (11% of the total)
VAT	**€2.1bn** (79% of the total)
Employment	**€0.2bn** (9% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.87** is spent in the wider economy.

Key Messages

- Dissimilar to most of the rest of Europe, Greece has a much larger on than off-trade, with 60% of beer sold in on trade establishments, albeit from nearly 70% in 2003 (reflective of this, bars and restaurants make up 78% of the sector).
- Excise duties and VAT have increased sharply in recent years. This may explain why, despite strong tourism performance in the period 2004 to 2009, the hospitality sector failed to perform notably better than the rest of the economy in terms of output.
- Economic uncertainty and declining tourist numbers in 2010 point to further challenges to invigorate the sector and further tax changes could provide an unwelcome ceiling on demand, growth and employment.

Summary

Over the 2000 to 2009 period, nominal GDP in Greece grew at an average rate of 5.0% per annum. Over the same period, the hospitality sector became increasingly important with average growth of 7.5% per annum. The years following 2009 have proven to be particularly difficult for the Greek economy, with household consumption estimated to have fallen by almost 23% in the four years to 2012, placing significant pressure on the economy and the hospitality sector in particular.

Despite the economic downturn in 2009, Greek tourism has remained relatively robust, providing a vital source of economic activity. Whilst the medium term view suggests a sustained period of negative/low growth in the Greek economy, the hospitality sector provides an opportunity to leverage Greece's position as a primary tourist destination to stimulate output and employment.

The standard rate of VAT in Greece is 23% (up from 18% in 2005) with a reduced rate of 6.5% applied to accommodation. Excise duties on beer and spirits have also increased sharply since 2009.

The recent increases in VAT mean that Greece now has relatively high rates when compared with the rest of Europe and in particular if comparisons are drawn against some of Greece's key competitors (for international tourism) such as Spain, Italy, France and Cyprus, which all have reduced rates applied to accommodation (as in Greece) as well as to food and beverages.

Restaurants are the largest sub-sector in the Greek hospitality sector, accounting for 42% of total hospitality sector turnover and 44% of employment in 2009. The bars sub-sector in Greece is relatively large, and accounts for the second highest proportion of turnover and employment in the sector.

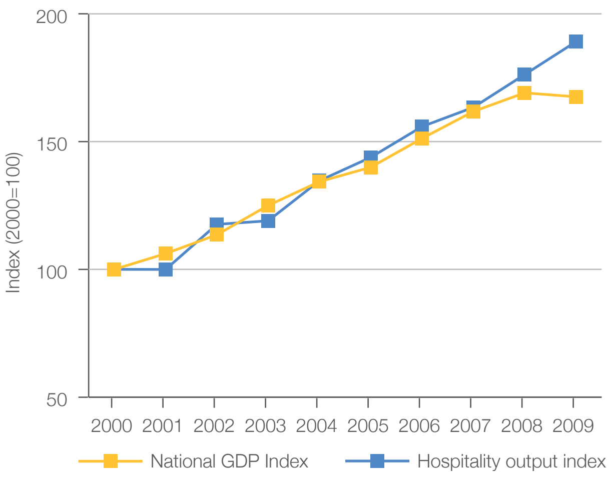
Economy Overview

Over the 2000 to 2009 period, nominal GDP in Greece grew at an average rate of 5.0% per annum. Over the same period, the hospitality sector has become increasingly important with average growth of 7.5% per annum. The years following 2009 have proven to be particularly difficult for the Greek economy, due to the sovereign debt crisis and associated austerity measures in the country.

The fall in overall economic performance can be witnessed in the reduction in household consumption, estimated to have fallen by almost 23% in the four years to 2012, placing significant pressure on the economy and the hospitality sector in particular.

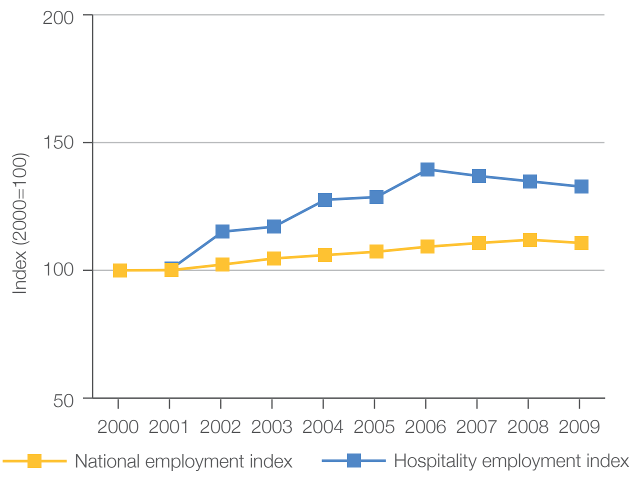
Despite the economic downturn in 2009, Greek tourism has remained relatively robust, providing a vital source of economic activity, and helping to support the hospitality sector against falling domestic incomes. Whilst the medium term view suggests a sustained period of negative/low growth in the Greek economy, the hospitality sector provides an opportunity to leverage Greece's position as a primary tourist destination to help stimulate output and employment.

GDP and hospitality turnover index, 2000 - 2009



Source: Eurostat

National and hospitality employment index, 2000-2009



Source: Eurostat

Over the 2000 to 2009 period, nominal GDP in Greece grew at an average annual rate of 5.0%. Post 2008, GDP has since contracted significantly in the face of the sovereign debt crisis and associated austerity measures.

The Greek hospitality sector was a particular success story between 2000 and 2009, with average annual growth of 7.5%. The hospitality sector continued to grow in 2009, whilst the rest of the economy contracted, highlighting the sector's role in providing a level of resilience to domestic economic pressures by leveraging international tourism.

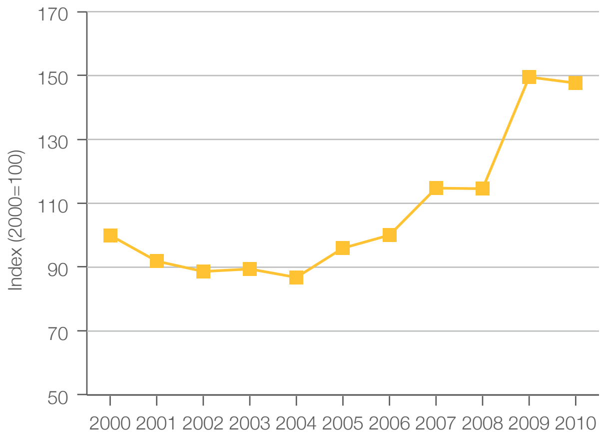
Inflation in Greece over the 2000 to 2009 period was relatively high, at an annual average rate of 3.9%. Adjusting for inflation, average GDP growth over the period was 1.1%, and growth in the hospitality sector was 3.6%.

Employment in Greece as a whole grew relatively slowly to 2006 and has since stagnated, with marginal falls in employment in 2009. In the same period, the hospitality sector saw relatively fast growth in employment through to 2006, before marginal falls in each subsequent year.

As employment in the hospitality sector has been falling whilst turnover has increased this suggests that the Greek hospitality sector has been able to improve its overall levels of productivity.

Substantial pressure is currently being placed on disposable incomes across Greece as a result of austerity measures related to Greece's sovereign debt crisis. This has had a severe impact on consumption in the country, with private consumption falling by almost 23% by 2012.

Tourism index, 2000 to 2010



Source: Eurostat

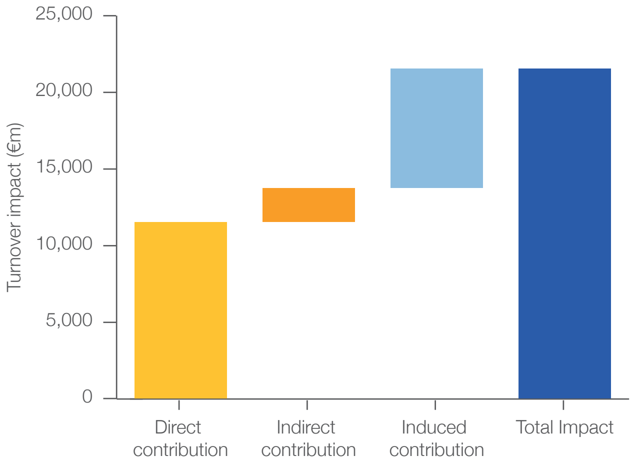
Tourism in Greece suffered a decline in between 2000 and 2004 followed by a period of strong growth through to 2009, before some stagnation in 2010. Tourism is very important to demand for the hospitality sector in Greece, with 60% to 80% of the sector's performance considered to be reliant upon it. This is particularly the case for the island economies in Greece.

In some respects, this provides an opportunity for the hospitality sector to play an increasing role in supporting Greece's return to economic growth. As the sector is more dependent upon international visitors it may be somewhat shielded from the intense squeeze on domestic incomes witnessed in the last few years.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in Greece is estimated to be €21.5bn. Greece's hospitality sector contributes €14.4bn of value added to GDP, equivalent to 6.5% of the total. In delivering this the sector supports approximately 467,000 employees, almost 11% of the total workforce. The economic contribution of the hospitality sector in Greece is relatively high when compared with the European average. For every €1 spent by the sector, an additional €0.87 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

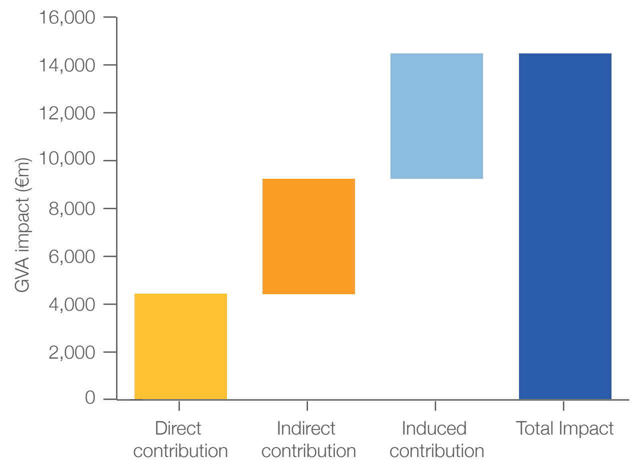


Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector was €21.5bn in 2010, which is equivalent to almost 10% of the total. This is above the European average as would be expected in a country which relies so heavily on tourism.

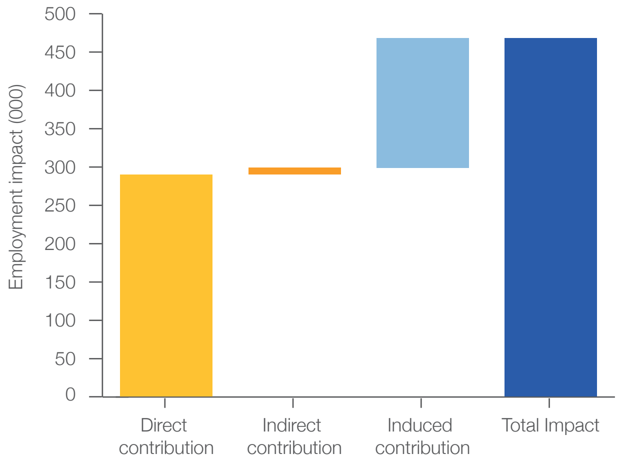
Greece's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.19 for the hospitality sector, meaning that for every €1 spent by the sector an additional €0.19 of demand is generated in its supply chain. The indirect multiplier is relatively low for the hospitality sector in Greece. This suggests that a high proportion of imports are used in its supply chain relative to the hospitality sector in other countries.

GDP impact of hospitality sector, 2010



The total value added of the Greek hospitality sector is over €14.4bn. This is equivalent to 6.5% of GDP.

Employment impact of the hospitality sector, 2010



In 2010, the Greek hospitality sector directly employed almost 289,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to Greek employment is an estimated 467,000 jobs. This is equivalent to almost 11% of total Greek employment.

Regulation / Taxation

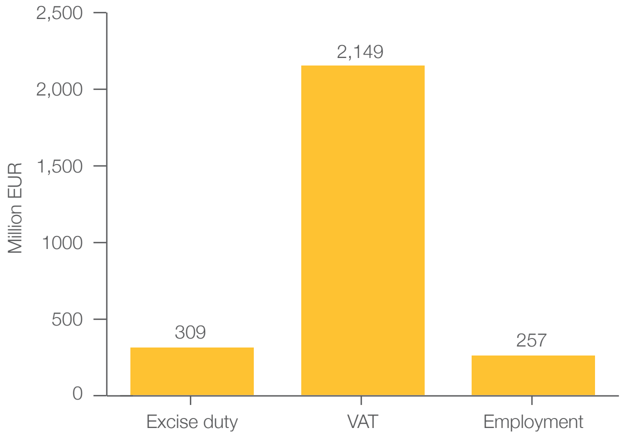
The Greek hospitality sector is currently subject to a standard rate of VAT of 23% and a reduced rate of 6.5% which applies to hotels. VAT rates in Greece have increased significantly in recent years from 18% in 2005. Excise duties on beer and spirits have increased sharply since 2009. Given that more recent turnover data for the hospitality sector is not available, the impact of these tax rises are not yet included in the statistics, however it is likely that they will have acted to suppress demand in the hospitality sector to some extent. There are no specific tourism taxes in Greece at present.

Tax Receipts

The Greek hospitality sector is estimated to have contributed €2.7bn in 2009 from excise duty, VAT and employment taxes alone.

Of this, €309m was collected through excise duty arising from the sale of alcoholic beverages in the hospitality sector. The Greek government also collected €2.1bn in revenue in gross VAT receipts (VAT deductions are not accounted for).

Tax receipts by type, 2009



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, these equate to €257m in revenue for the Exchequer in 2009.

Excise Duty

Excise duty on beer doubled to €2.6 per °Plato / hl in the second half of 2010, where it still remains. Spirit duty is currently €2,450 / hl pure alcohol. Throughout the period, wine was zero rated.

A large rise in beer duty has a big impact upon the bar sub-sector which sells a higher proportion of beer than wine or spirits.

VAT and Reduced rates

In Greece, the standard rate of VAT is currently 23% (versus a European average of 21%). A reduced rate of 6.5% applies to accommodation.

VAT rates in Greece have increased markedly in recent years. In 2005, the standard VAT rate was increased from 18% to 19%, with a further increase to 21% in March 2010, before reaching the current rate of 23% in July 2010. There has been an associated rises in the reduced rate of VAT from 4% to the current rate 6.5%.

Unlike many other Southern European economies, with heavy dependence upon tourism (such as Spain, Cyprus, Italy and France), Greece does not apply any reduced rates to food or beverages served in hospitality enterprises.

Hospitality sector in focus

The hospitality sector in Greece grew strongly over the 2000 to 2009 period, at an average annual rate of 7.5%. Although more recent data is not available, it is likely that the sector has since contracted somewhat, as a result of conditions in the Greek economy. Restaurants are the largest sub-sector, accounting for 42% of total hospitality sector turnover and 44% of employment in 2009. The bars sub-sector in Greece is relatively large, and accounts for the second highest proportion of turnover and employment in the sector.

Unlike most of Europe, the majority of beer in Greece was purchased from on-trade establishments (60% in 2011), which may be associated with the relatively high number of bars in Greece and the dependence upon international visitors.

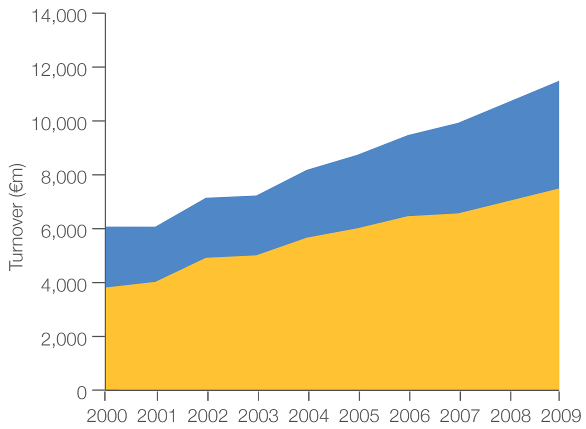
Given the wider economic challenges facing Greece, the hospitality sector provides a significant opportunity to help re-stimulate growth and employment. The sector is less dependent upon domestic consumption (which has fallen by almost a quarter in the last four years) and is therefore able to leverage the stronger economic recovery outside of Greece and the more rapid growth in developing nations.

Despite some wider negativity there remain a number of opportunities for operators. Specifically, moves to reform the economy have introduced some regulatory changes which may help to increase the ease of doing business in the country. For example, regulation has recently changed to simplify the process to startup businesses.

Greece currently has high VAT rates when compared with the rest of Europe and in particular if comparisons are drawn for the hospitality sector against some of Greece's key competitors (for international tourism) such as Spain, Italy, France and Cyprus, which all have reduced rates applied to accommodation (as in Greece) as well as to food and beverages.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2009



Source: Eurostat

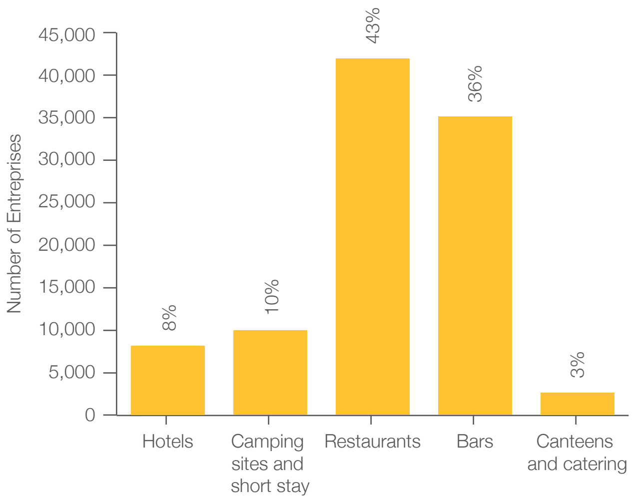
Overall, the hospitality sector experienced strong growth between 2000 and 2009 in Greece, with a 67% increase in total turnover, to around €11.5bn in 2009. This represents an average annual growth rate of 7.5%.

The restaurant and bar sub-sectors grew at a slightly faster rate than accommodation over this period. As a result, it has increased its share of turnover in the hospitality market from 63% in 2000 to 65% in 2009.

Of particular importance has been the hospitality sector's ability to continue to deliver growth in 2009, against a backdrop of domestic recession and falling incomes.

Enterprises in the hospitality sector

Number of enterprises by type, 2009



Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Whilst the overall turnover of the sector grew by 67% between 2000 and 2009, the number of enterprises grew by only 5% in the same period, suggesting a marked improvement in overall productivity.

Total enterprises peaked in 2007 before consecutive falls in 2008 and 2009, leaving the total number of enterprises 6% below that of the peak level.

In 2009, the restaurants sub-sector had the largest number of establishments in Greece, with a total of around 42,000 (43% of the total). Hotels accounted for another 8,100 enterprises (8% of the total) with other types of accommodation accounting for 9,900 enterprises (10% of the total). Bars represent 36% of the total number of enterprises, with over

35,000 in 2009.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2003-2011

Source: The Brewers of Europe

Unlike the vast majority of Europe, in Greece, the majority of beer is purchased from on-trade establishments (60% in 2011). This trend has continued despite the ongoing economic challenges in Greece placing increasing pressure on domestic incomes.

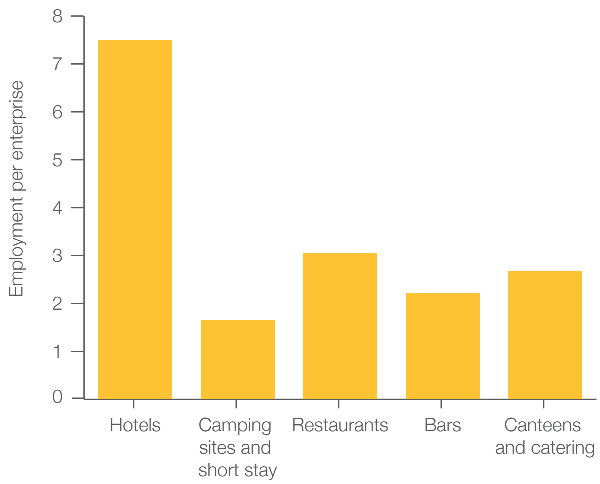
The proportion of beer purchased from the on-trade has declined since 2008 however (reducing by percentage points), which may reflect changing consumer behaviour as a result of income pressures and other changes, such as the introduction of the smoking ban in 2010.

Employment in the hospitality sector

Employment in the hospitality sector in Greece has grown by 3.2% per annum over the 2000 to 2009 period.

Despite the overall positive trend, there has been a slow decrease in recent years, from a peak of almost 304,000 employees in 2006 to 289,000 in 2009. This reduction in employment is likely as a result of improved productivity, as turnovers have increased at the same time.

Employment per enterprise, 2009



Source: Eurostat

Data on enterprise numbers in each of the hospitality sub-sectors in Greece is limited, and is only publicly available for 2009. The hotel sub-sector employs the most individuals per enterprise.

Enterprise Focus

BARS

Bars account for the second highest share of hospitality sector establishments in Greece, at 36% in 2009. The bar sub-sector ranks third out of all sub-sectors in the hospitality sector in terms of turnover and employment, accounting for 20% and 27% respectively in 2009.

The sub-sector is characterised by a relatively high number of small enterprises, with average turnover per enterprise estimated at just under €67,000 compared with almost €422,000 per hotel enterprise. The majority of alcoholic beverages are purchased from on-trade establishments (60% in 2011), which may be associated with the relatively high number of bars in Greece and the relative importance of international visitors.

The economic conditions in Greece continue to present significant challenges for the operators of all hospitality establishments, with private consumption contracting sharply in recent years due to rapid increases in unemployment, the impact of austerity measures and a lack of confidence associated with the uncertain economic outlook. It is likely that this trend will continue into the medium term.

The implementation of reform packages in Greece has led to some regulatory changes which may help to support businesses. For example, there have recently been changes in the licensing system which has made it simpler to start up new businesses.

In 2010, Greece introduced a smoking ban which prohibits smoking in all enclosed public spaces including bars and restaurants. Enforcement of the law is reportedly weak, but is likely to present challenges for the bar sub-sector, particularly given the historically high level of tobacco consumption in Greece (more than 40% in 2010).

RESTAURANTS

Restaurants are the largest sub-sector in the hospitality sector in terms of turnover, employment and establishment numbers. Restaurants accounted for 42% of sector turnover in 2009 and 44% of employment.

As with the wider sector, the performance of restaurants is likely to have been severely affected by the recession in Greece, something which will continue to present a challenge going forward.

The increasing rate of VAT has also served to make eating out more expensive for the local population as well as impacting overall competitiveness against other Southern European countries that have reduced rates in place (e.g. Spain, Italy, France and Cyprus).

However, there are a number of opportunities which have been identified by sub-sector operators, which may help to attract consumers. These include a return to a focus upon national culinary offerings, an increased focus on sustainable food sourcing, and the movement towards low calorie/healthier food options.

HOTELS

The hotels sub-sector is the second largest in terms of turnover and employment in the hospitality sector. Hotels accounted for 30% of revenue and 21% of employment in 2009.

Similar to other sub-sectors the economic conditions in Greece and across the Eurozone will continue to create a challenging environment for hotel operators going forward. There are indications that the contraction in demand has been particularly marked for city or in-land regions which are more dependent on domestic tourists and business travel. Island and coastal resorts appear to have shown some resilience, due to the higher number of foreign guests.

Reductions in prices aimed at stimulating demand have had a direct impact on the profit margins of operators. Operators have also suggested that there has been a contraction in investment in the sub-sector, thus having a negative impact on the quality of the Greek tourism product.

Heavy taxation on real estate property has been identified as another challenge to the sub-sector going forward, given its negative impact on profit margins.

Despite these challenges, the sub-sector also has a number of opportunities including the possibility of attracting new customer groups from new and growing markets such as the BRIC countries. Operators have also identified opportunities for developing new tourism products and for promoting these in an innovative way using social media.

Hungary

Hungary

Key Statistics

Average annual GDP growth rate, 2001 - 2010 (nominal)	**7.1%**
Hospitality sector annual growth rate, 2001 - 2010 (nominal)	**5.3%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€6.6bn** (6.8% of the total)
GDP	**€2.4bn** (2.5% of the total)
Employment	**228,000** (6.1% of the total)

Total tax contribution of hospitality	**€884m**
Excise	**€119m** (13.0% of the total)
VAT	**€601m** (68.0% of the total)
Employment	**€164m** (19.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.34** is spent in the wider economy.

Key Messages

- Performance of the hospitality sector mirrors closely the average in Europe. Annual average growth over 5% with the period after EU accession marking an increase in employment, turnover and tourist numbers up to the downturn in 2008.
- The downturn appears to have hit Hungarian hospitality (and the wider economy) hard. Disposable incomes fell in 2009 for the first time in the period, following a drop off in tourism numbers in 2008.
- The standard rate of VAT is the highest in Europe at 27% and though a reduced rate is applied in hospitality, it only applies to accommodation and is set at 18%. While the number of enterprises in the sector is showing as relatively stable, sustained pressure on both disposable incomes and prices (through excise and VAT increases) would be expected to have a detrimental impact on demand over time.

Summary

GDP growth of 7.1% per annum was primarily driven by accession to the EU, helping to broaden Hungary's export markets and attract larger numbers of visitors to the country (for business and leisure). Over the same period, the hospitality sector was an important contributor to wider economic prosperity, with an average annual growth rate of 5.3% per annum and outperforming the economy as a whole in terms of job creation. The growth in the hospitality sector in the two years prior to recession was 28% in total, suggesting greater potential going forward, given an improvement in wider demand conditions.

Turnover in the hospitality sector peaked in 2008, but dropped sharply in 2009 due to declines in tourism and disposable incomes alongside a significant increase in VAT rates. The restaurants sub-sector is the largest in Hungary in terms of enterprise numbers, turnover and employment.

Bars account for the second highest share of hospitality sector establishments in Hungary, accounting for 30% of all enterprises in 2010. An increasing trend towards off-trade consumption poses further risks to the bar sub-sector, with a further 10% increase in excise duties in 2013, alongside other recent regulatory changes placing further pressure on operators.

Tourism taxes are also enforced in Hungary and have been increased in recent years alongside the introduction, in 2011, of a series of specific food and beverage taxes. In general, the response to the economic downturn and resulting austerity requirements has been to actively increase taxation levels in a range of ways; taken together these significantly impact the pricing and competitiveness of the hospitality sector in Hungary.

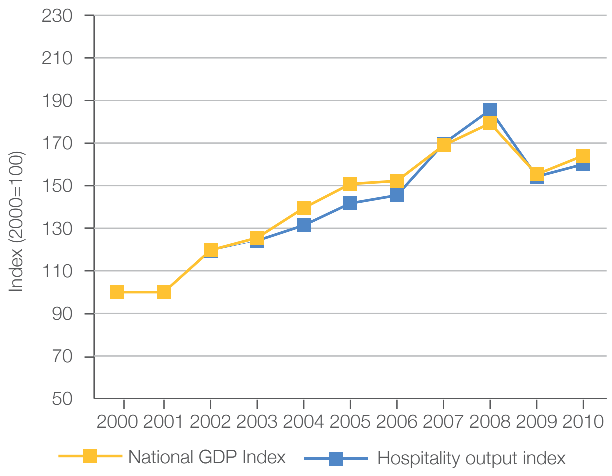
Economy Overview

Over the 2001 to 2010 period, nominal GDP grew at an average rate of 7.1% in Hungary. This was primarily driven by accession to the EU, amongst other things, which helped to broaden Hungary's export markets and help attract larger numbers of visitors to the country (for business and leisure). Over the same period, the performance of the hospitality sector broadly reflected that of the economy as a whole, growing at an average of 5.3% per annum.

Despite strong economic growth during the 2001 to 2010 period, employment in Hungary has been relatively stagnant as a whole, with the hospitality sector outperforming the wider economy in terms of total job creation.

As the sector began to really expand, and international visitors grew in 2007 and 2008 (turnover grew by 28% in two years), the sector was suddenly faced with the double challenge of falling demand abroad and domestic incomes curtailed by rising unemployment and tax burdens. Both GDP and employment contracted in 2009; but there was some recovery in 2010, especially in the hospitality sector.

Nominal GDP and hospitality turnover index, 2001 - 2010

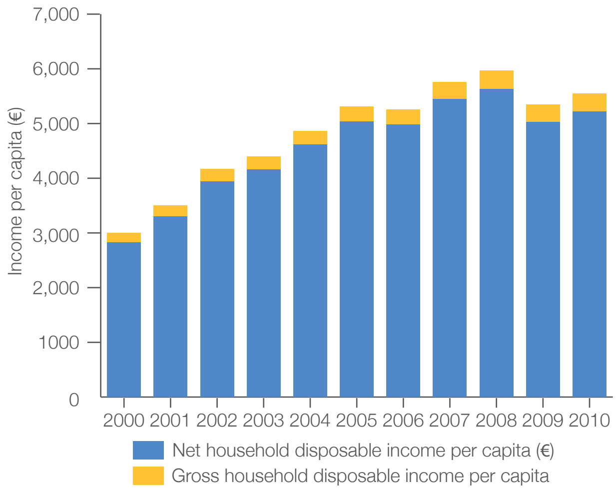


Source: Eurostat

GDP in Hungary grew at an average annual rate of 7.1% over the 2001 to 2010 period, with the accession to the EU in 2004 generally viewed as having a positive impact on the GDP growth rate. GDP in Hungary peaked in 2008, before dropping in 2009 as a result of the global economic downturn, and recovering to some degree in 2010.

Inflation in Hungary over the 2001 to 2010 period has been high, with an average annual growth rate of 7.3%. Adjusting for inflation, average GDP growth over the period was -0.2%.

National and hospitality employment index, 2001-2010

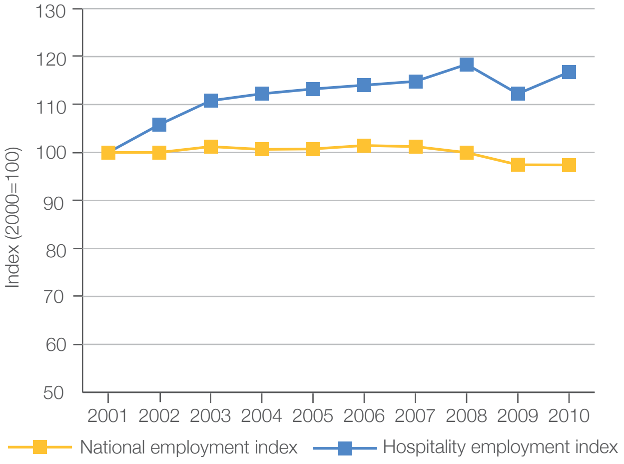


Source: Eurostat

Employment in the Hungarian economy has been largely flat from 2001 to 2007. Since 2007, total employment has contracted, with a drop below 2001 levels of employment in 2009 and 2010.

Growth in employment in the hospitality sector has generally been stronger than that of the economy as a whole, peaking in 2008, followed by a 5% decline in 2009 as a result of the financial crisis. Employment in the hospitality sector has since recovered somewhat, with a 4% increase between 2009 and 2010, reflecting a wider return to economic growth in Hungary.

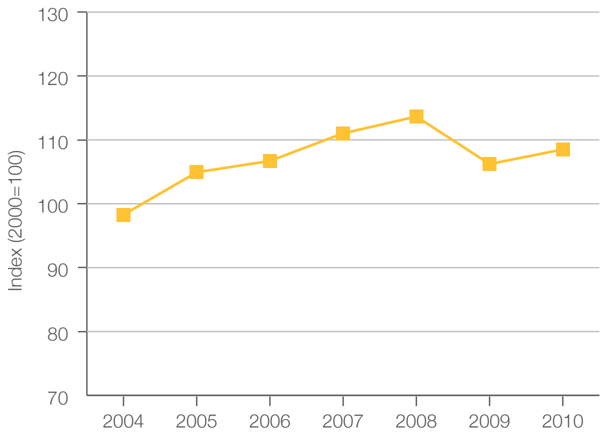
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Net household disposable income in Hungary almost doubled between 2000 and 2008. Purchasing power has, however, suffered a significant decline since 2008, with household consumption contracting continuously since the start of the recession due to tight credit and weak consumer confidence. This is likely to be a driving factor behind the decline in demand in the hospitality sector in 2009.

Tourism index, 2004-2010



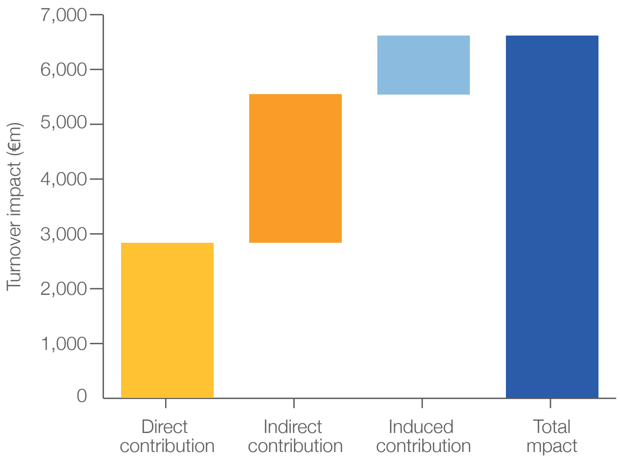
Source: Eurostat

Tourism in Hungary peaked in 2008, before a relatively modest decline in 2009 and signs of recovery in 2010. This decline in tourism is likely to disproportionately affect the hospitality sector in areas such as Budapest, Lake Balaton and some spa resorts which are most dependent on tourism for their performance.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in Hungary is estimated to be over €6.6bn. Hungary's hospitality sector contributes over €2.4bn in value added to GDP, representing 2.5% of the total. In delivering this output the sector supports approximately 228,000 employees, equating to around 6% of the total workforce. For every €1 spent by the sector, an additional €1.34 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

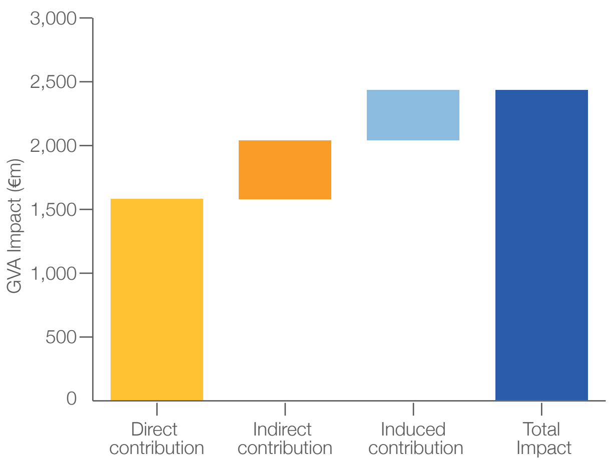


Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector is over €6.6bn, which is equivalent to almost 7% of the total.

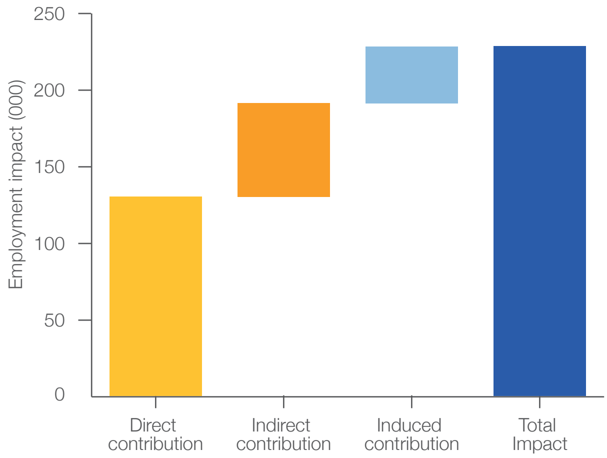
Hungary's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.96, meaning that for every €1 spent by the hospitality sector an additional €0.96 of demand is generated in its supply chain. The indirect multiplier is relatively high compared to that for other European countries. This implies that the Hungarian hospitality sector imports fewer of its inputs than hospitality operators in other European countries.

GDP impact of hospitality sector, 2010



The total value added impact of the Hungarian hospitality sector is over €2.4bn, including the direct, indirect and induced contribution. This is equivalent to 2.5% of GDP, which is relatively low compared to the European average.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

In 2010, the hospitality sector in Hungary directly employed around 130,000 individuals. In total the hospitality sector supports an estimated 228,000 jobs. This is equivalent to over 6% of the total Hungarian workforce.

Regulation / Taxation

The Hungarian hospitality sector is currently subject to a standard rate of VAT of 27%, the highest in the EU, with a reduced rate of 18% applied to accommodation. The standard VAT rate in Hungary has increased significantly in recent years from 20% in 2009. Excise duty on beer and spirits increased several times between 2008 and 2013. Beer experienced the largest increase in 2012 (130%). Wine remains zero rated.

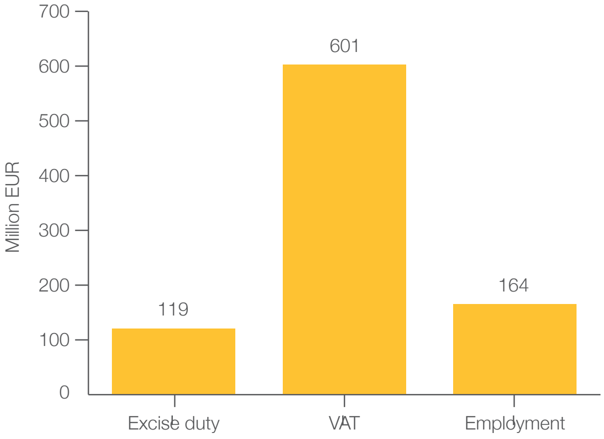
Tourism taxes are also enforced in Hungary, and are administered at a regional level. There have been significant increases in tourism taxes in recent years alongside the introduction, in 2011, of a series of specific food and beverage taxes. In general, the government's response to the economic downturn and resulting austerity requirements has been to actively increase taxation levels in a range of ways; taken together these significantly impact the pricing and competitiveness of the hospitality sector in Hungary.

Tax Receipts

The Hungarian hospitality sector is estimated to have contributed €884m in tax revenues in 2010 from excise duty, VAT and employment related taxes. Of this, €119m was collected through excise duty arising from the sale of alcoholic beverages in the hospitality sector.

The Hungarian government also collected over €601m in revenue from sector related gross VAT receipts (VAT deductions are not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, these raised €164m in revenue for the Exchequer in 2010.

Excise Duty

Excise duty on beer and spirits increased several times between 2008 and 2013. Spirit duty increased 41% during the period, reaching HUF 333,385 / hl pure alcohol at the start of 2013. Beer experienced a much larger rise in duty. Following small initial changes in 2009 and 2010, duty increased by 130% in 2012 and a further 15% in 2013, resulting in a total upward change in the period of 200% (to HUF 1,617 per °Plato / hl).

Throughout the period, wine remained zero rated.

VAT and Reduced rates

The standard VAT rate in Hungary is currently 27%, the highest rate in the EU (the European average is 21%). A reduced rate of 18% is applied to accommodation.

There have been a number of increases in VAT rates in Hungary in recent years, with the standard VAT rate in Hungary increased from 25% in January 2012. This followed a 5% increase from 20% in July 2009.

The number and scale of these VAT rises has placed considerable pressure on the Hungarian hospitality sector. A 7% increase in three years, during a period of contracting disposables incomes, places considerable pressure upon consumers' discretionary spending (where hospitality is often viewed as an easier area to restrict spending than for other expenses such as utilities).

Other taxes

Tourists who spend at least one night in Hungary are subject to a tourism tax, which varies in terms of rates and calculation methods between regions. The tax is charged by hotel operators at a rate of around €1.50 per night. The owners of hotel buildings are also subject to a tourism tax in proportion to the size of the hotel.

Tourism taxes have increased several times from 2000 to 2010. For example in Budapest, where the tourism tax is calculated as a percentage of the room rate, the tourism tax increased from 2% in 2000 to 4% in 2010.

In September 2011, Hungary introduced taxes on a series of food and beverage products, including certain soft drinks, energy drinks, pre-packaged sweetened products, salty snacks and condiments.

Hospitality sector in focus

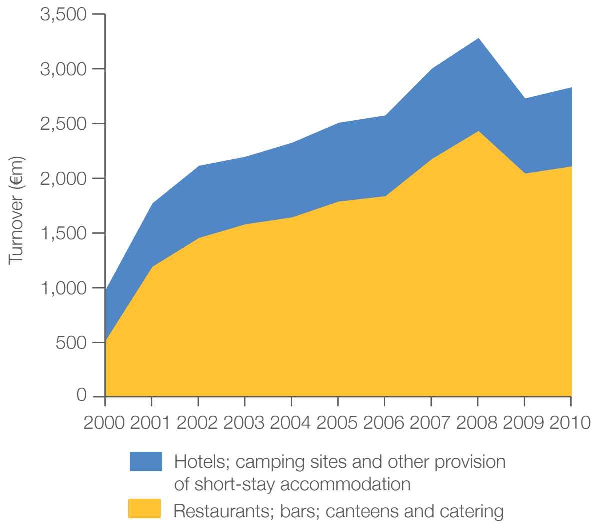
Overall, turnover in the hospitality sector in Hungary grew at an average annual rate of 5.3% over the 2001 to 2010 period. The expansion in the sector has been largely driven by growing domestic incomes, accession to the EU and increasing accessibility for international visitors.

Turnover peaked in 2008, but dropped sharply in 2009 due to declines in tourism and disposable incomes alongside a significant increase in VAT rates. The restaurants sub-sector is the largest in Hungary in terms of enterprise numbers, turnover and employment. Restaurants accounted for 49% of all hospitality sector turnover in 2010, and 54% of all employment.

Bars account for the second highest share of hospitality sector establishments in Hungary, accounting for 30% of all enterprises in 2010. There has been some change in drinking patterns in Hungary, with an increase in the share of beer purchases from off-trade establishments (62% in 2010). There is likely to be further pressure on the bars sub-sector in the future as a result of planned excise increases and recent regulatory changes such as opening hours restrictions and a ban of gaming machines.

Turnover in the hospitality sector

Hospitality sector breakdown, 2001-2010



Source: Eurostat

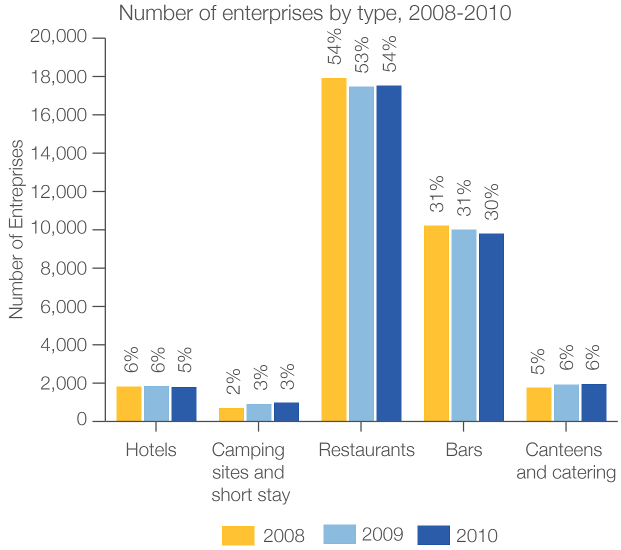
Overall, the hospitality sector experienced growth of 5.3% per annum over the 2001 to 2010 period, to reach a total of €2.8bn. Growth between 2006 and 2008 was particularly strong, totaling 28% and highlighting the potential of the Hungarian market.

Turnover peaked in 2008 (at €3.3bn), but dropped sharply in 2009 as tourist numbers declined, disposable income contracted and VAT rates increased.

The restaurant and bar sub-sectors contribute the largest proportion of total hospitality sector turnover, representing almost 75% in 2010. This share has increased since 2001, from 67%.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



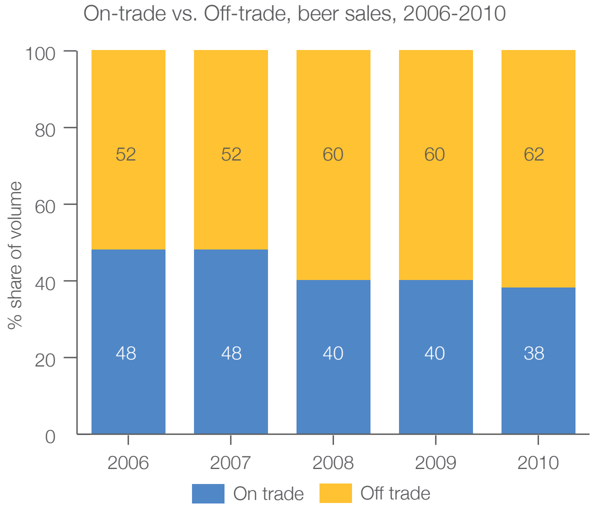
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

The number of enterprises in the restaurants and bars sub-sectors declined between 2008 and 2010, from a peak of 33,150 to 32,750 by the end of the period. The share of each sub-sector out of the total number of enterprises in the hospitality sector has remained broadly stable, indicating that the impact of the recession has been felt relatively evenly across operators.

The restaurants sub-sector has the greatest share of enterprises in the sector (54% in 2010), whilst bars represent 30% of the total and hotels represent 5%.

On-trade vs. Off-trade



Source: The Brewers of Europe

In Hungary, the majority of beer is purchased from off-trade establishments. The proportion purchased from off-trade establishments has increased significantly from 52% in 2006 to 62% in 2010.

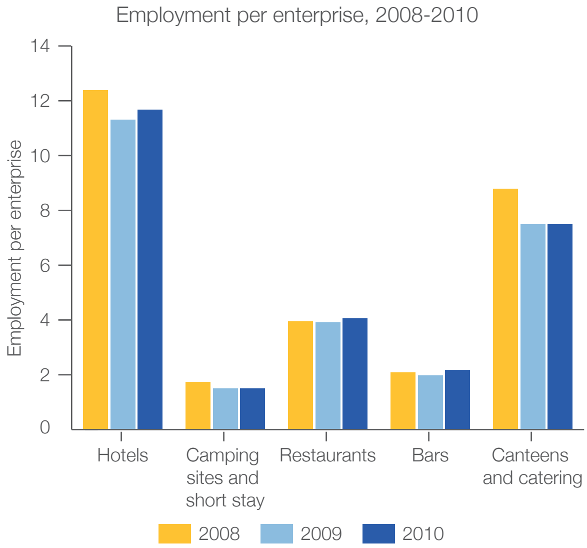
The increase in the share of off-trade purchases may be associated with the drop in disposable incomes in Hungary (which is likely to have constrained domestic demand) and dampening of international visitors (who buy a significantly higher proportion of alcohol in the hospitality sector than in the off-trade).

Employment in the hospitality sector

Employment in the hospitality sector in Hungary has grown relatively strongly over the 2000 to 2010 period, with an average annual growth rate of over 8%.

Employment peaked in 2008 at around 132,000 employees. This was followed by a 5% decline in 2009. Employment in the hospitality sector has since recovered somewhat to 2010 (increasing by around 4% in that year).

There is a trend towards an increase in part time jobs and other alternative employment formats in the hospitality sector, enabling the sector to remain flexible to changing demand conditions.



Source: Eurostat

Consistent with the trends in the broader hospitality sector, employment per enterprise dropped for the majority of sub-sectors between 2008 and 2009. Employment per enterprise has recovered for some sub-sectors between 2009 and 2010, with employment per enterprise increasing beyond 2008 levels for the restaurants and bars sub-sectors.

Enterprise Focus

BARS

Bars account for the second highest share of hospitality sector establishments in Hungary, accounting for 30% of all enterprises in 2010. The bar sub-sector ranks third out of all sub-sectors in the hospitality sector in terms of turnover, accounting for 13% of the total. It also supported 16% of sector employment in 2010.

The sub-sector is characterised by a relatively high number of small enterprises, with average turnover per enterprise estimated at just over €37,000 compared with almost €80,000 per hotel enterprise. The majority of beer is purchased from off-trade establishments (62% in 2010), which has increased from 52% in 2006. This change in consumption patterns suggests a weakening in demand for the bars in Hungary, given the current pressures on income and significant rises in VAT and excise duties.

The economic environment in Hungary will continue to lead to challenging trading conditions in the hospitality sector as a whole in the future. Household consumption has contracted significantly since the beginning of the global recession, a trend which is likely to continue into the medium term.

Despite the existing pressure the hospitality sector is under, a further increase in excise duty for alcoholic beverages (increase of around 10%) has been implemented in 2013. This is likely to further pressure on demand, to the extent that it is passed through to consumers in higher prices.

There are a number of regulatory changes which will also prove challenging for the bars sub-sector. Specifically, opening hour regulations have recently been introduced whereby bars must close by 10pm in some districts. A ban on gaming machines was introduced in 2012, which bans gaming machines in all venues apart from casinos. A smoking ban in pubs and restaurants also came into effect in January 2012. These regulatory changes may act to constrain demand and divert consumption further to the off-trade going forward.

RESTAURANTS

The restaurants sub-sector is the largest in Hungary in terms of enterprise numbers, turnover and employment. Restaurants accounted for 49% of all hospitality sector turnover in 2010, and 54% of all employment. Performance in the sub-sector has been mixed in recent years, with a drop in turnover in 2009, followed by a recovery in 2010.

The home and office food delivery business model has been identified as a key area of opportunity going forward, due to the development of IT and telecommunications capability. However, ongoing pressures on household incomes alongside the particularly high rate of VAT in Hungary are likely to constrain the opportunities for restaurants going forward.

HOTELS

The hotels sub-sector is the second largest in the Hungarian hospitality sector in terms of turnover (24% of the total in 2010). It also supported 16% of sector employment. Performance in recent years has been mixed, with declining revenues in 2009 and a slight recovery in 2010. Over the 2008 to 2010 period, revenues in the sector declined by 15%.

Economic conditions both in Hungary and in Europe as a whole are proving challenging for the hotels sub-sector, with tourism demand decreasing and growing pressures on prices due to increased price sensitivity and the rise of on-line travel agents (increasing visibility of prices and therefore increasing price competition).

Despite some negative news there remain opportunities in the sub-sector. Specifically, budget flight operators are further expanding in Budapest which can help to support demand as customers become more price sensitive. There is also an opportunity to target new markets that are less exposed to the Eurozone crisis, such as Russia, Ukraine and the Middle East.

Finally, operators have suggested that there is an opportunity for the hotels sub-sector resulting from the rise in demand for tourist offerings that focus on wellness. There is a view that these offerings could prove to be increasingly popular with domestic tourists in the future.

Ireland

Ireland

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**4.2%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**4.1%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€17.6bn** (11.2% of the total)
GDP	**€7.1bn** (4.5% of the total)
Employment	**230,000** (12.7% of the total)

Total tax contribution of hospitality	**€2.5bn**
Excise	**€06bn** (26.0% of the total)
VAT	**€1.5bn** (57.0% of the total)
Employment	**€0.4bn** (17.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.26** is spent in the wider economy.

Key Messages

- Of the €2.5bn tax revenue contributed by the hospitality sector, a much greater percentage than the average elsewhere in the EU comes from excise duties, at approximately 26% or €661m.
- The hospitality sector generated high value added in the rest of the economy with every €1 spent supporting a further €1.26 of demand elsewhere.
- However, the sovereign debt crisis and general economic downturn hit Ireland hard in the later years of the period, offsetting early economic success.

Summary

From 2000 to 2007, Ireland experienced relatively strong growth in nominal GDP followed by a sharp contraction due to the banking and sovereign debt crisis. In line with wider economic performance, employment in the Irish economy contracted between 2007 and 2010, with around 270,000 jobs lost in total since 2007. A similar trend occurred within hospitality, where 11% of jobs in the sector were lost.

The hospitality sector in Ireland generated turnover of €7.8bn in 2010, a sharp fall from the peak of 2008 (€9.7bn), resulting from falling domestic demand (as a result of higher unemployment, lower disposable incomes and higher tax levels) and a decline in tourism numbers.

The bars sub-sector is the largest in the hospitality sector in Ireland (largely due to an established pub culture), accounting for 34% of total sector turnover. Ireland is the only country in Europe where this is the case. A high proportion of beer is purchased from on-trade establishments relative to other European countries, accounting for 65% of sales in 2011.

Hotels account for 27% of the hospitality sector and suffered the largest decline between 2008 and 2010, primarily as a result of over capacity delivered in the growth years of 2004 to 2008. Restaurants accounted for 30% of total sector turnover in 2010 and experienced the smallest decline following the recession, with a 15% fall since 2008.

Ireland's economy returned to growth in 2011 and 2012, with the second half of 2012 witnessing an increase in consumer spending (on a seasonally adjusted basis) for two consecutive quarters. Compounded to the introduction of the reduced VAT rate in mid-2011, this has had a direct impact on employment; by the end of 2012 it was up 4.1% relative to Q2 2011.

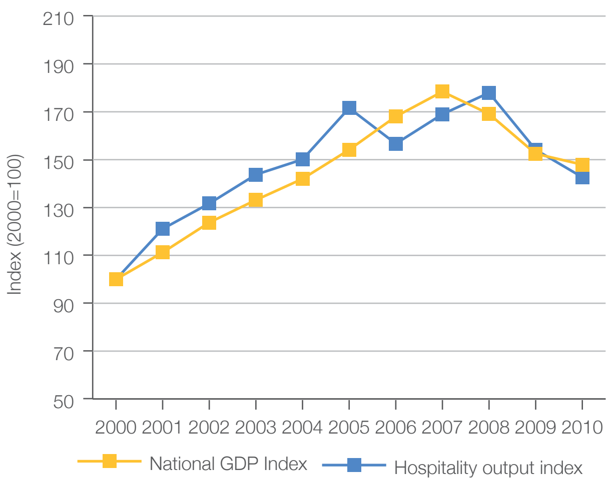
Economy Overview

From 2000 to 2007, Ireland experienced relatively strong growth in nominal GDP; however this was followed by a sharp contraction due to the banking crisis and the associated sovereign debt crisis. The final three years of the period bring the average annual growth rate down to 4.2% for the whole 2000 to 2010 period.

The Irish hospitality sector grew at a marginally slower rate than the economy as a whole, with an average growth rate of 4.1% per annum. In line with wider economic trends, employment in the Irish economy contracted between 2007 and 2010, with around 270,000 jobs lost in total since 2007. A similar trend occurred within hospitality, where 11% of jobs in the sector were lost.

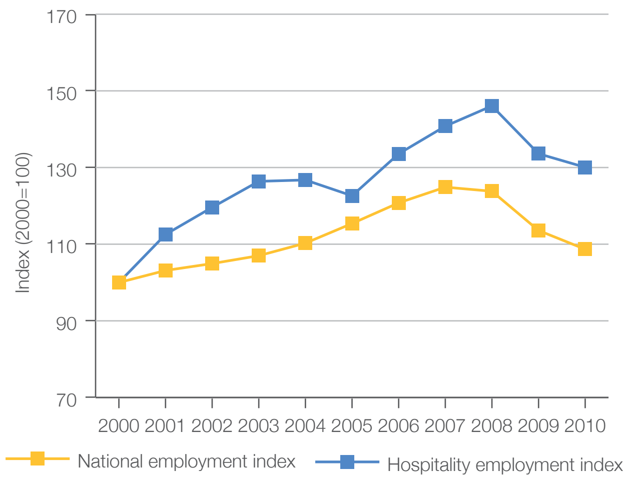
Since 2008 there has also been a significant decline in household incomes, due to tax rises and increasing unemployment. Tourism in Ireland has followed the same broad trend as other indicators, with rapid growth to a peak in 2008, and a significant contraction to 2009. Declining domestic demand, together with reduced tourist numbers has combined to dampen overall performance in the hospitality sector in Ireland in recent years.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

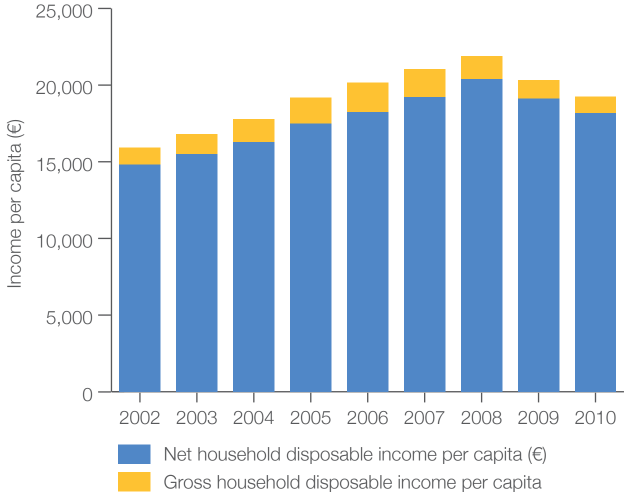
Nominal GDP in Ireland experienced strong growth over the 2000 to 2007 period, due to factors including corporate tax policy, strong increases in foreign direct investment (FDI) and widespread improvements in infrastructure, largely supported by EU Structural Funds.

However since 2007, nominal GDP has fallen sharply due to the banking and sovereign debt crisis in Ireland. Overall, nominal GDP in Ireland grew at an average annual growth rate of 4.2% over the 2000 to 2010 period. Growth in the hospitality sector has been more volatile than that of the economy as a whole. Turnover in the sector peaked in 2005 and 2008, and has declined sharply since then due to the impact of the economic conditions and the austerity measures on disposable income.

Inflation in Ireland over the 2000 to 2010 period has grown at an average annual rate of 2.8%. Adjusting for inflation, average real GDP growth over the period was 1.4%.

In line with trends in GDP, employment in the Irish economy peaked in 2007 and has since contracted as a result of the economic downturn in the country. Employment in the hospitality sector peaked in 2008 and has since declined by around 11%.

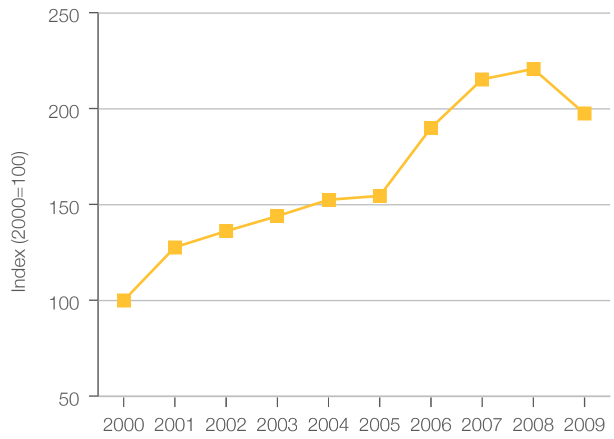
Real Net and Gross disposable income per capita EUR, 2002-2010



Source: Eurostat

Disposable incomes are a key measure for the hospitality sector as they underpin household consumption and discretionary spending. Following the trends in other indicators, real net disposable income in Ireland grew strongly from 2002 to a peak in 2008 but has since declined significantly in real terms to 2010.

Tourism index, 2000-2009



Source: Eurostat

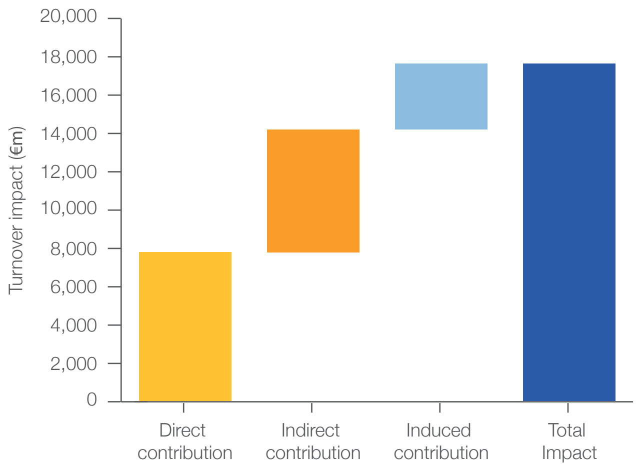
Tourism in Ireland increased rapidly between 2000 and 2008. The positive trend in tourism over this period has been associated with a number of factors including: increased government investment in tourism due to assistance from EU Structural Funds; a heightened overseas profile due to widespread marketing campaigns and cultural events; and the impact of the Peace Process in Northern Ireland.

However tourism has since declined from the 2008 peak. This is likely to disproportionately affect the hospitality sector in areas such as Dublin and the west coast region which are more reliant on tourism as a source of demand.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in Ireland is estimated at approximately €17.6bn. Ireland's hospitality sector contributes €7.1bn of value added to GDP, equivalent to 4.5% of the total. In delivering this output the sector supports approximately 230,000 employees in total, equating to around 13% of the workforce. The economic contribution of the hospitality sector in Ireland is high compared with the European average. For every €1 spent by the sector, an additional €1.26 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

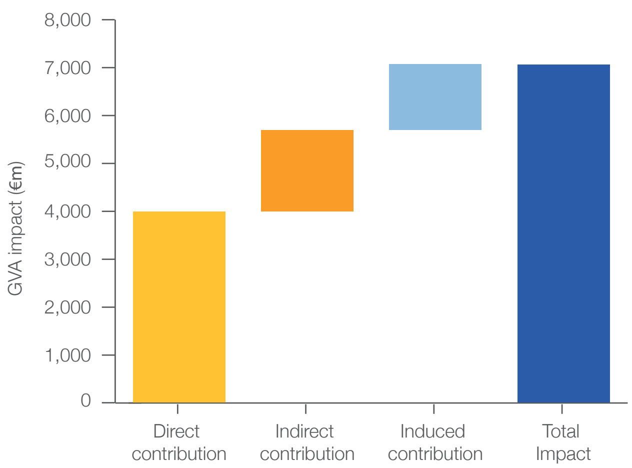


Source: Eurostat, EY calculations

The total turnover supported by the Irish hospitality sector in 2010 was approximately €17.6bn, which is equivalent to around 11% of the total. The scale of this impact is higher than the European average.

Ireland's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.82, meaning that for every €1 spent by the hospitality sector an additional €0.82 of demand is generated in its supply chain.

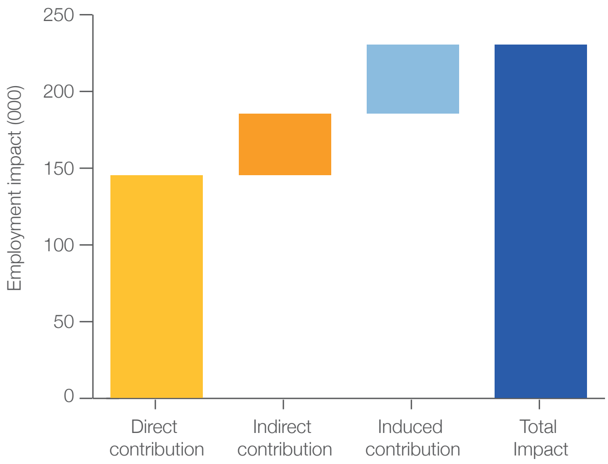
GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

The total value added to the Irish hospitality sector is €7.1bn, including the direct, indirect and induced contribution. This impact is equivalent to 4.5% of GDP, which is high relative to the European average.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

In 2010, the Irish hospitality sector directly employed 145,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to Irish employment is an estimated 230,000 jobs, equivalent to almost 13% of the workforce.

The employment contribution of the hospitality sector is higher than the European average, with Ireland ranking 5th out of all European countries in terms of its employment impact.

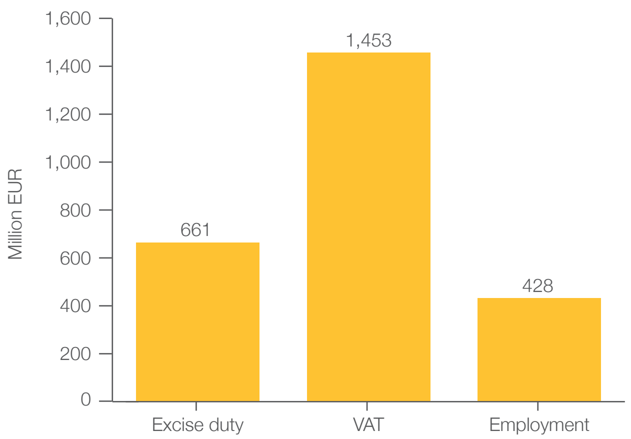
Regulation / Taxation

The Irish hospitality sector is currently subject to a standard rate of VAT of 23% and a reduced rate of 9% which applies to hotels and food served in restaurants, cafés and bars. Although the standard VAT rate was increased from 21% in 2011, the impact of this on the hospitality sector has been mitigated to some extent by a decrease in the reduced rate from 13.5% to 9%. It is clear, however, that whilst the reduced rate makes the hospitality sector more affordable, a higher standard rate squeezes overall discretionary spending for consumers (as the prices of other goods and services increases).

Tax Receipts

The Irish hospitality sector is an important contributor to tax revenues and is estimated to have contributed €2.5bn to tax revenues in 2010 from excise duty, VAT and employment taxes alone. Of this, €661m was collected through excise duty arising from the sale of alcoholic beverages in the hospitality sector. The Irish government also collected approximately €1.5bn in revenue from gross VAT receipts paid in the sector (this does not account for any VAT deductions).

Tax receipts by type, 2010



Source: EY calculations

Tax receipts related to employment in the sector totaled over €428m in 2010. This includes income taxes and social security contributions from both employees and employers.

Excise Duty

Excise duty on alcoholic beverages was cut in 2010 before returning closer to pre 2010 levels at the start of 2013. Beer duty is €19.13 per % abv/hl, wine duty is €370.64/hl and spirits duty is €3,685/hl pure alcohol.

VAT and Reduced rates

The standard VAT rate in Ireland is currently 23%. The VAT rate was increased in July 2011 from a rate of 21% which had been in force since March 2002.

In July 2011, the VAT rate for accommodation and food was reduced from 13.5% to 9%, with the aim of stimulating the hospitality sector. This reduced rate of 9% was initially agreed for 2 years; however it has since been re-affirmed in the 2013 Budget.

Other taxes

The Minister of Health noted in 2011 that the Irish government was considering a sugar tax on sugar-sweetened drinks. However the tax has not been included in any subsequent budgets as sugar-sweetened drinks have been captured in the rise in the standard VAT rate to 23%. This rise has not impacted milk or water which are currently exempt from VAT.

Hospitality sector in focus

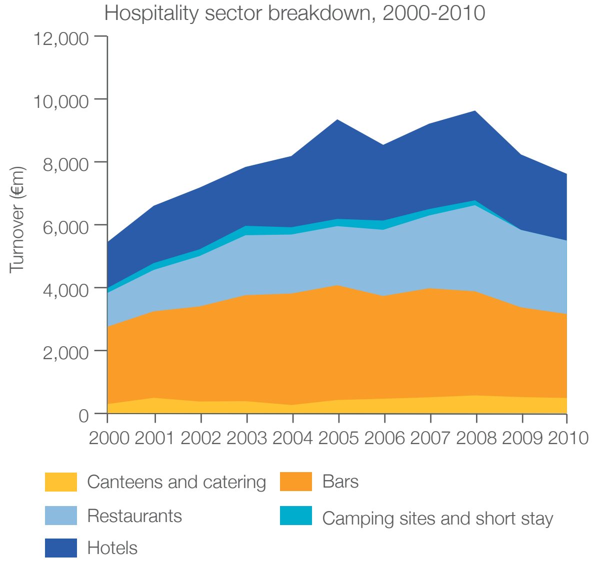
Overall, the hospitality sector in Ireland has grown at an average rate of 4.1% per annum (marginally lower than the growth rate of the economy as a whole) to reach a value of €7.8bn in 2010. Turnover in the sector has fallen sharply since the peak of 2008 (€9.7bn), as a result of falling domestic demand and a decline in tourism numbers. The fall in turnover has been particularly pronounced for the hotels sub-sector, with a 25% decline between 2008 and 2010.

The bars sub-sector is the largest in the hospitality sector in Ireland (largely due to an established pub culture), accounting for 34% of total sector turnover. Ireland is the only country in Europe where this is the case. A high proportion of beer is purchased from on-trade establishments relative to other European countries, accounting for 65% of sales in 2011.

In turnover terms, hotels account for 28% of the hospitality sector and suffered the largest decline between 2008 and 2010, falling by 25% to just over €2.1bn. This was primarily as a result of overcapacity delivered in the growth years between 2004 and 2008 and falling numbers of visitors (for example, visitors from the UK have fallen by almost 30% since 2006).

Restaurants accounted for 31% of total sector turnover in 2010 and experienced the smallest decline following the recession, with a 15% fall since 2008. Overall prospects for the sector as a whole continue to be challenging, with household consumption only expected to return to growth in 2014.

Turnover in the hospitality sector



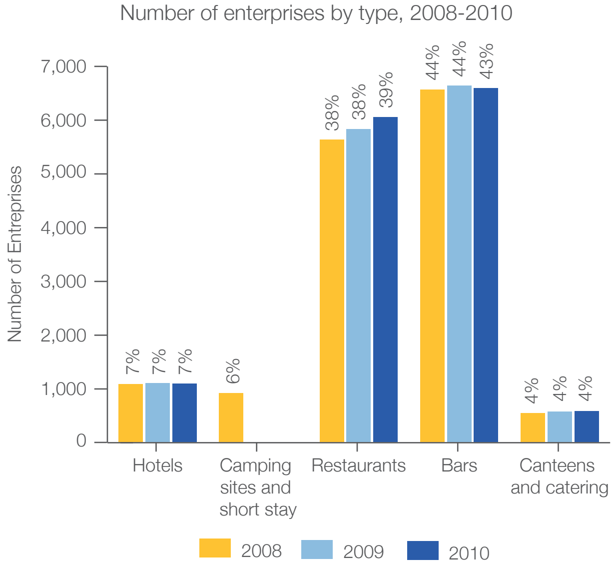
Source: Eurostat

Overall, turnover in the Irish hospitality sector has grown at an average annual rate of 4.1% between 2000 and 2010. Adjusting for inflation, hospitality sector turnover grew at a real average annual rate of 1.3%. The growth path of turnover in the Irish hospitality sector has been relatively volatile over the period, with peaks in 2005 and 2008. Since 2008, turnover has fallen sharply, as a result of reduced household disposable incomes (resulting from higher levels of unemployment, government tax policy and other austerity measures) and a reduction in tourism numbers.

The impact of the 2011 decrease in the reduced VAT rate (from 13.5% to 9%) has not yet been captured in official statistics; however it is aimed at reversing or slowing the decline in turnover in the wider hospitality sector (hotels and restaurants in particular).

The bars sub-sector is the largest contributor to turnover in the hospitality sector in Ireland, representing 34% of the total in 2010. Ireland is the only European country where this is the case.

Enterprises in the hospitality sector



Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Despite the downturn in revenues the overall number of enterprises has actually increased in most sub-sectors between 2008 and 2010 to reach a peak of 15,300 at the end of the period. Similarly to turnover, bars make up the largest proportion of establishments, representing 43% of all hospitality establishments in 2010. Restaurants account for 39% of enterprises with hotels accounting for a further 7%.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2006-2011

Source: The Brewers of Europe

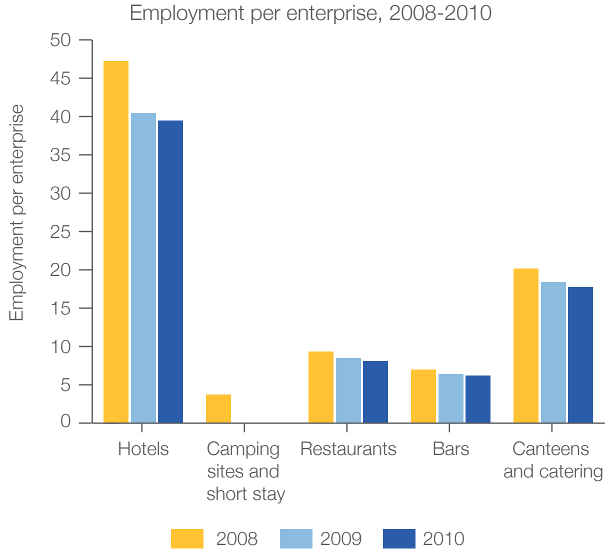
The majority of beer in Ireland is bought from on-trade establishments, with on-trade sales representing 65% of volume in 2011. Despite ongoing pressure on disposable incomes and increases in VAT and excise duty the share of on-trade sales has remained relatively robust at 65% in 2011. This is still a significant fall from the peak of 72% share in 2009.

Employment in the hospitality sector

As with turnover in the sector, hospitality employment in Ireland has faced a relatively volatile growth path over the 2000 to 2010 period. Employment in the sector peaked at over 162,000 employees in 2008 followed by a contraction of almost 11% by 2010.

Wage costs in Ireland are high relative to other European countries, with the second highest minimum wage in Europe. Whilst this does have positive effects in terms of the increasing purchasing power for employees it also reduces the flexibility of labour options for employers; thus any dampening of demand is likely to be met more quickly by reductions in staff numbers.

Employment per enterprise, 2008-2010



Source: Eurostat

Employment per enterprise has declined in all sub-sectors of the hospitality sector between 2008 and 2010.

Enterprise Focus

BARS

As already noted, the bars sub-sector is the largest in the hospitality sector in Ireland. Turnover in the sub-sector has contracted as a result of the falling incomes and increasing prices in Ireland (due to excise and VAT increases), falling by 15% between 2008 and 2010.

Despite a return to positive growth in the Irish economy in 2011 and 2012, the medium term outlook for the economy remains challenging.

Household consumption dropped markedly as a result of Ireland's recession, due to high levels of unemployment, declines in disposable income, and a lack of confidence in the economic outlook. Consumption is likely to remain flat in 2013, suggesting that demand for the hospitality sector will continue to be subdued.

Excise duty will continue to prove challenging for the bars sub-sector in Ireland. Excise duty in Ireland is amongst the highest in Europe, and was increased substantially in December 2012.

RESTAURANTS

The restaurants sub-sector is the second largest in the Irish hospitality sector, accounting for 30% of total sector turnover, and 34% of employment in 2010. A 15% fall in turnover between 2008 and 2010 appears to have continued in subsequent years, with stabilisation in demand conditions not expected until 2014.

In addition to pressures on sub-sector revenues, restaurant operators also suggest that input costs are likely to increase in the future, thus placing further pressure on profit margins. A lack of credit for the sub-sector also means that investment is likely to be constrained going forward, thus limiting the opportunities for expansion.

Despite the challenges posed by the economic environment in Ireland, there are also opportunities. For example, it may be possible for operators to respond to pressures on household incomes by introducing more affordable product offerings and by offering value for money across their product ranges.

HOTELS

The hotels sub-sector is the third largest out of the total hospitality sector in Ireland, representing 27% of total turnover and 29% of employment. This sub-sector has seen one of the largest declines in turnover in recent years, with a drop of over 25% in revenue between 2008 and 2010.

Prior to the economic downturn, the hotels sub-sector had been performing strongly, with a significant increase in overseas tourists leading to a 26% rise in turnover between 2004 and 2008. As a result of this increase in demand, bedroom capacity was increased by 32% over the same period. Since the economic downturn, over capacity has led to a significant decline in occupancy rates.

As with the other sub-sectors in the hospitality sector, the economic conditions are likely to lead to challenges for hotels. Particularly, prior to the crisis some operators took on significant levels of debt as a result of cheap credit conditions. These operators are now faced with outstanding bank debt and the possibility of financial restructuring.

In addition to suppressed domestic demand, the challenging economic conditions in other European countries and currency fluctuations are likely to continue to constrain overseas visitor numbers, thus contributing to problems of overcapacity. For example, visitor numbers from Great Britain have declined by almost 30% since 2006. As consumers are more price sensitive, operators are under pressure to reduce room rates to drive occupancy increases.

Despite these challenges, there is an opportunity to target new markets outside of Europe to attract new customers. The development of integrated experimental tourism products has also been sighted by some operators as a potential opportunity going forward. In addition to these demand side opportunities, the government is also providing support to remove structural barriers to access in the business, which should help to simplify business conditions in the future.

Italy

Italy

Key Statistics

Average annual GDP growth rate, 2000 - 2009 (nominal)		**2.7%**
Hospitality sector annual growth rate, 2000 - 2009 (nominal)		**3.1%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€144.7bn** (9.5% of the total)
GDP	**€66.3bn** (4.4% of the total)
Employment	**1.9m** (8.4% of the total)

Total tax contribution of hospitality	**€22.2bn**
Excise	**€0.4bn** (2.0% of the total)
VAT	**€10.6bn** (48.0% of the total)
Employment	**€11.1bn** (50.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.36** is spent in the wider economy.

Key Messages

- Italy is one of few EU countries that saw the hospitality sector suffer in the post new member state era after 2004, recovering in 2006 to outperform the wider economy, before tailing off and declining post downturn.
- Over the period, the contribution to the overall economy was strong, supporting 9.5% of total output and 8.4% of total jobs. For every €1 spent in hospitality, an additional €1.36 is spent in the wider economy.
- VAT and employment taxes are notably high contributors to overall tax receipts but a buoyant and relatively stable on-trade sector over the time period is supported by VAT reduced rates on almost all hospitality sub-sectors.

Summary

Economic instability in Italy and the wider Eurozone has had a negative impact upon medium term growth prospects, with a continued lack of confidence for both consumers and business. The need for a deeper and broader tax base as a result of the financial crisis has placed a greater burden on business and consumers, and acts as a key barrier to growth in the short term for the hospitality sector. Real GDP was forecast to contract by 1.7% in 2013 (revised from 1.4% drop) and 0.4% in 2014, after a 2.4% fall in 2012.

Overall levels of taxation within the hospitality sector in Italy are increasing, with the introduction of a range of tourist taxes in 2011 alongside a rise to 22% VAT in 2013 (following a 1% rise in 2011). Whilst the vast majority of the sector is currently subject to a relatively low level of VAT (the reduced rate of 10%), this does not apply to entrance fees and the first drink served in discos (if the drink is paid for), where a significantly higher VAT burden (standard rate of 21%, rising to 22% in July 2013) is applied. Italy applies a zero rate on wine, reflecting its position as a major wine producer.

Italy is an established global tourist destination as well as having a domestic culture heavily influenced by eating and entertaining outside of the home. The hospitality sector grew by 29% between 2000 and 2009, from a turnover perspective, representing a successful period for an already mature market. The final year of the period however saw a decline across the sector, with around 46 bars and 23 hotels closing down every week.

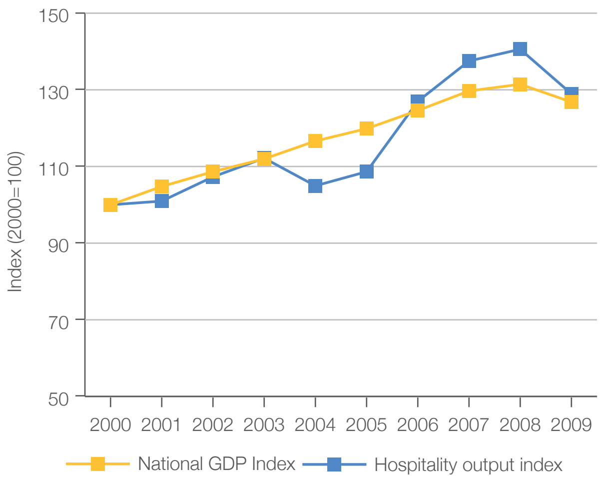
The total turnover supported by the hospitality sector in Italy is €144.7bn, 9.5% of total output. This equates to a value added to GDP of €66.3bn, 4.4% of the total. For every €1 spent by the sector, an additional €1.36 is spent in the supply chain and via employees' consumption. A total of 1.9m jobs are supported by the Italian hospitality sector, representing 8.4% of the total workforce.

Economy Overview

Economic instability in Italy and the wider Eurozone has had a negative impact upon overall growth, and the hospitality sector. The economy continues to struggle in the face of an entrenched lack of confidence for both consumers and business. The need for a deeper and broader tax as a result of the financial crisis has placed a greater burden on business and consumers, and acts as a key barrier to growth in the short term for the hospitality sector.

According to recent forecasts, real GDP is expected to contract by 1.7% in 2013 (revised from 1.4% drop) and 0.4% in 2014, after a 2.4% fall in 2012.

GDP and hospitality turnover index, 2000 - 2009



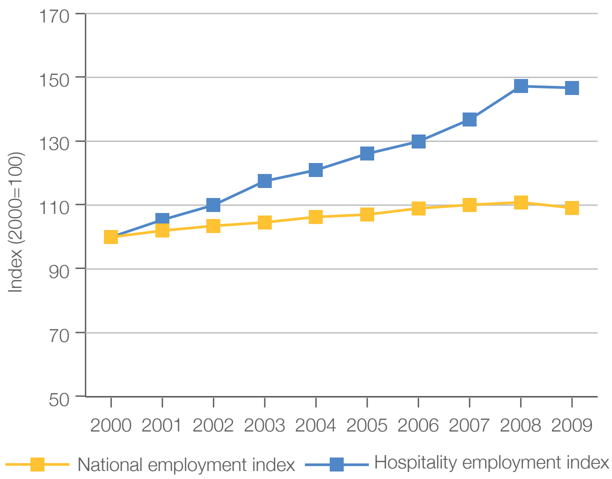
Source: Eurostat

Italy's economic growth during the period has remained modest, at an average annual rate of 2.7% between 2000 and 2009 in nominal terms. In real terms Italy's economy grew by 0.4% per annum (reflecting an average inflation rate of 2.3% per annum).

Against a backdrop of relatively low growth and increasing competition from an enlarged EU, the hospitality sector declined in 2004. The sector recovered through to 2008, before the impact of the wider economic downturn hit domestic incomes and tourism from traditional visitor markets.

The medium term outlook for the Italian economy is challenging, with estimates suggesting Italy will remain in recession until 2015, where years of low growth are expected to follow.

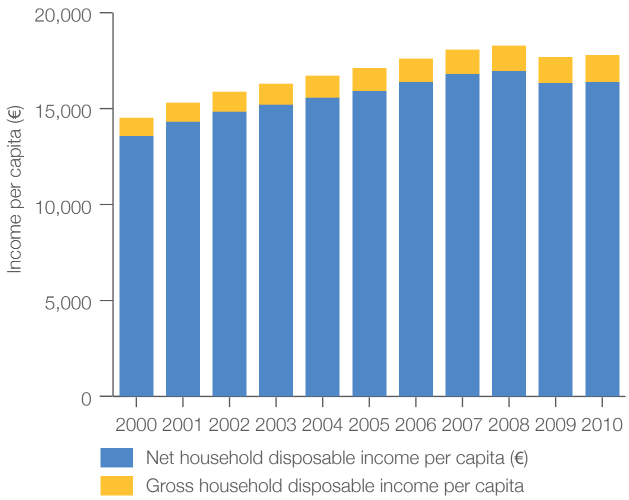
National and hospitality employment index, 2000-2009



Source: Eurostat

In line with wider economic performance, employment in Italy had shown relatively stable growth through to 2008. The impact of the downturn and more recent Eurozone crisis has continued to place pressure on overall economic output, employment and jobs.

Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Real net disposable income in Italy grew consistently through to 2008, increasing from €13,500 in 2000 to €18,300. The impact of the 2009 recession can be seen on real disposable incomes, with consumer spending power being squeezed.

Domestic demand for the hospitality sector is expected to continue to remain under pressure, as higher unemployment, alongside increasing tax burdens, will squeeze individuals' incomes and reduce wider confidence in the market.

Tourism index, 2000-2010

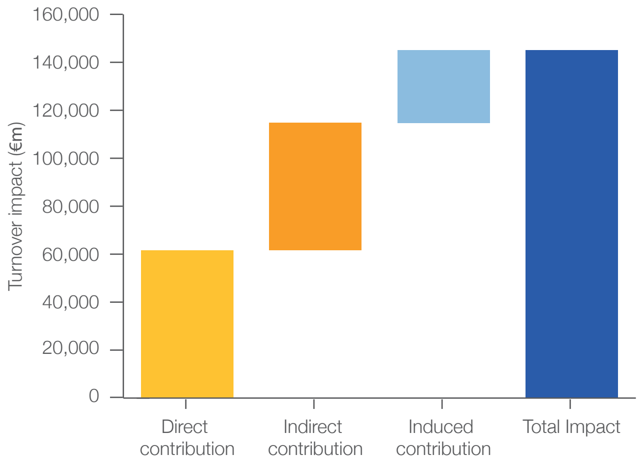
Source: Eurostat

Tourism is a major contributor to the Italian economy, and is estimated to support around 20% of the hospitality sector. Total visitor numbers have fallen in line with the economic downturn of 2008. Despite its established status as a global tourist destination, Italy is facing ever increasing competition as tourists seek out increasing value for money for their holiday spend. The increase in VAT in 2013 and introduction of tourist taxes in 2011 further increase the relative cost of a trip to an Italian location.

Economic Contribution of the hospitality sector

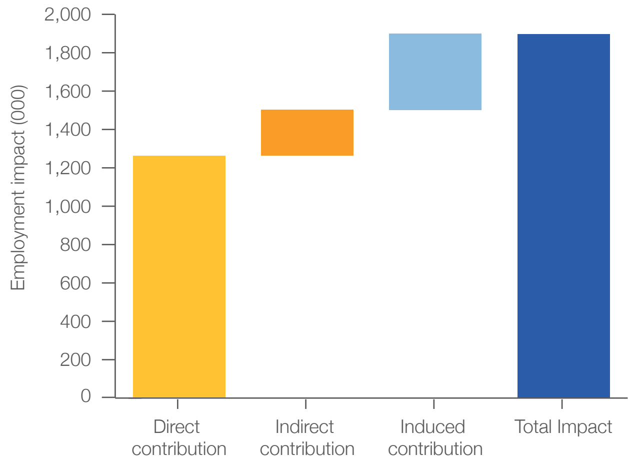
The total turnover supported by the hospitality sector in Italy is €144.7bn, 9.5% of the total output. This equates to a value added to GDP of €66.3bn, 4.4% of the total. For every €1 spent by the sector, an additional €1.36 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of 1.9m jobs are supported by the Italian hospitality sector, representing 8.4% of the total workforce.

Turnover of the hospitality sector, 2009



Source: Eurostat, EY calculations

Employment impact of the hospitality sector, 2009

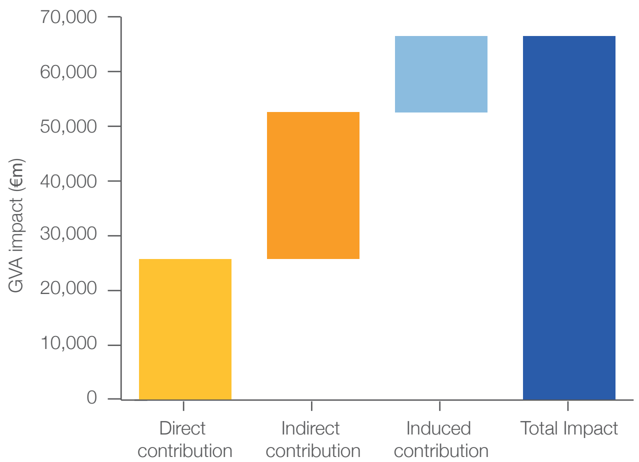


Italy's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.87, meaning that for every €1 spent by the hospitality sector an additional €0.87 of demand is generated in its supply chain.

The total turnover supported by the hospitality sector in Italy is estimated at €144.7bn, representing 9.5% of the country's total output. Of this, €61.3bn is directly generated, with a further €53.1bn generated through the supply chain and €30.3bn induced through employees' expenditure.

The Italian hospitality sector directly employed 1.26m people in 2009 and supported a further 634,000, totalling around 1.9 million in total. This represents 8.4% of the total workforce.

GDP impact of hospitality sector, 2009



The sector's total contribution to Italian GDP is estimated at €66.3bn (4.4% of the country's total). The indirect multiplier is particularly high for Italy (3rd highest in Europe), which reflects the domestic nature of its supply chain, keeping greater flows of money in the domestic market. This is one reason in particular why the hospitality sector is so important to Italy.

Regulation / Taxation

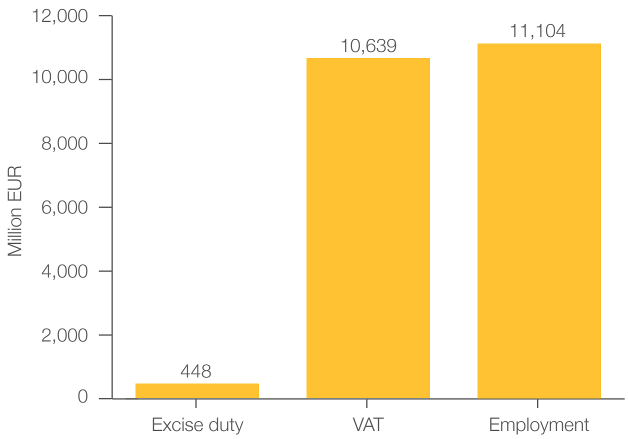
Overall levels of taxation within the hospitality sector in Italy are increasing, with the introduction of a range of tourist taxes in 2011 alongside a rise in VAT to 22% in July 2013. Whilst the vast majority of the sector is currently subject to a relatively low level of VAT (the reduced rate of 10%), this does not apply to entrance fees and the first drink served in discos (if the drink is paid for), where a significantly higher VAT burden (standard rate of 21%, rising to 22% in July 2013) is applied.

Italy applies a zero rate duty on wine, reflecting its position as a major wine producer. The duty applied to beer and spirits has remained unchanged since 2006.

Tax Receipts

In excise duty, gross VAT receipts (VAT deductions are not accounted for) and employment taxes (employee and employer contributions) alone, the hospitality sector directly contributed around €22.2bn in tax receipts in 2009.

Tax receipts by type, 2009



Source: EY calculations

The vast majority of these tax returns are generated through employment and VAT receipts, representing 98% of the total.

Excise Duty

Excise duty on beer and spirits in Italy has not changed since 2006. Beer duty is €2.35 per °Plato / hl, whilst duty on spirits is €800.01 / hl pure alcohol. Throughout the period, wine has been zero rated. There are increases expected during the course of 2013.

VAT and Reduced rates

Italy has three stated rates of VAT, with a standard rate of 21% (increased from 20% in 2011 and set to increase further to 22% in July 2013), a reduced rate of 10% and a super-reduced rate of 4% (which have remained unchanged).

The hospitality sector is almost entirely subject to the reduced rate of 10% (from an accommodation, food and drink perspective), the only exception to this being entrance fees and the first drink served in discos (where it is paid for), where the standard rate of 21% applies. Subsequent drinks in discos are subject to the reduced rate.

The upcoming increase in the standard rate of VAT has been scaled back from initial plans to increase it to 23%. This is to reflect the continued pressure on Italian incomes, employment and output levels and the need to boost domestic consumption.

Other taxes

Italy introduced a range of local tourist taxes, 'Tassa di soggiorno', in 2011. Generally the tax is an amount corresponding to the hotel star rating, levied on a set number of nights. This taxable number of nights threshold varies from place to place. At a high level, these additional local taxes may add between €0.35 and €5 per night to guests' bills (depending upon rating of hotel and seasonality).

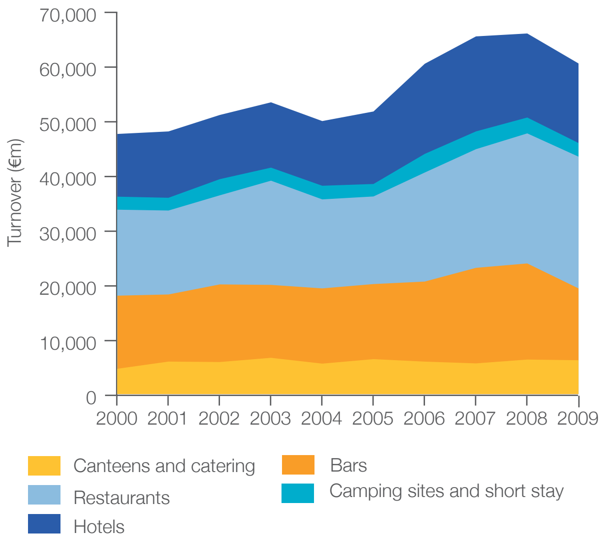
In August 2012, the Italian Ministry for Health considered the introduction of a tax to apply on soft drinks. However, this possibility was postponed until further notice.

Hospitality sector in focus

Italy is an established global tourist destination as well as having a domestic culture heavily influenced by eating and entertaining outside of the home. From a turnover perspective, the hospitality sector grew by 29% between 2000 and 2009, representing a successful period for an already mature market. The final year of the period, however, saw a decline across the sector, with around 46 bars and 23 hotels closing down every week due to weakening demand conditions.

The short to medium outlook for domestic incomes remains challenging as instability in the Italian and wider Eurozone economy dampens confidence and hastens austerity measures of higher taxation and lower public spending.

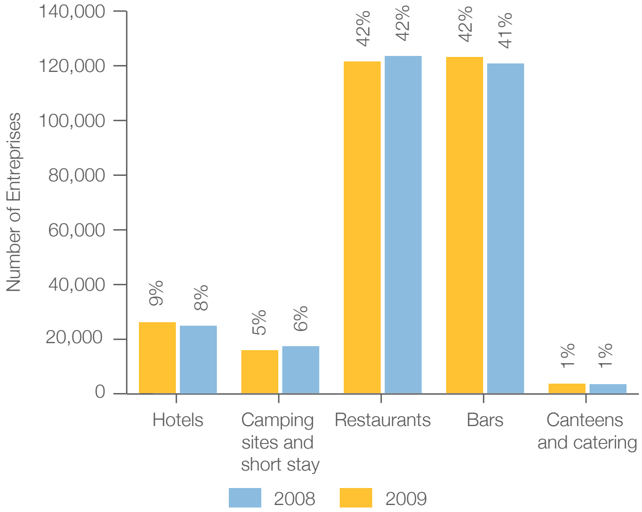
Turnover in the hospitality sector



Source: Eurostat

Total turnover in the hospitality sector has grown from €47.5bn in 2000 to €61.3bn in 2009 (2010 data is not available). This represents an increase of around 30% in nominal terms during the period. Restaurants represent the single biggest sub-sector (at 40% of total turnover), followed by hotels (24% of turnover) and bars (22% of turnover).

Enterprises in the hospitality sector



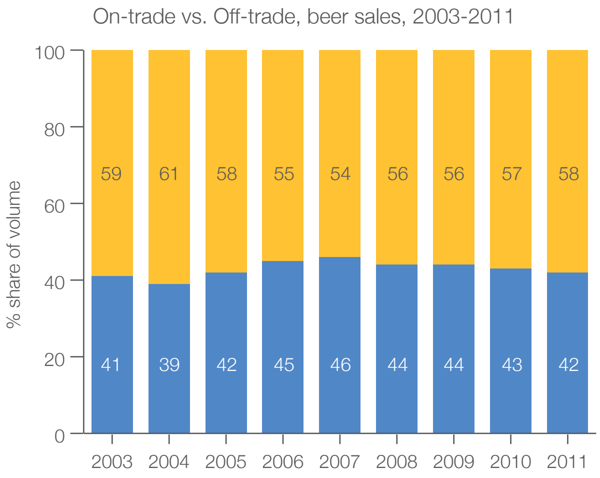
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

The downturn of 2008 impacted overall revenues but had less of an effect upon the total number of enterprises, with a net loss of 224 establishments in 2009 alongside a fall in revenue of €5.5bn (an 8% drop). This suggests that across the sector, operators are delivering lower average revenues with increasing competition for lower levels of demand.

Both hotels and bars had losses in terms of establishment numbers (at -5% and -2% respectively), whilst the number of restaurants grew by 2% in 2010 when compared to 2009.

On-trade vs. Off-trade



Source: The Brewers of Europe

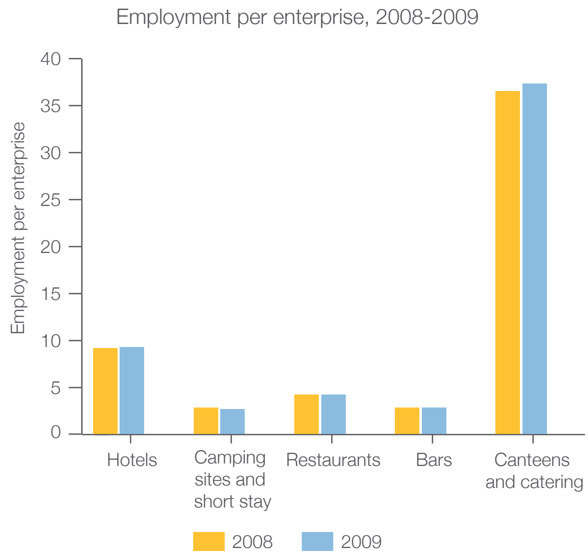
The reduction in real incomes already identified has contributed to an increasing proportion of beer being sold in the off-trade. Whilst there was an increase in on-trade sales at the start of the period, following the global financial crisis this trend has reversed. The level of on-trade sales (by volume) has returned to being close to the 2003 level.

The sale of on-trade alcoholic beverages adds more to the wider economy (through support of jobs and greater output) than off-trade, thus the trend away from on-trade poses some risk to the future contribution of the sector as a whole.

Employment in the hospitality sector

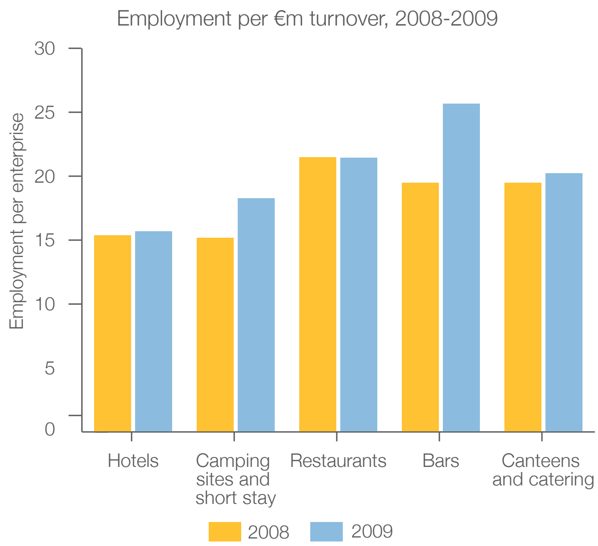
Total direct employment in the hospitality sector grew from 859,000 in 2000 to 1.26m in 2009, an increase of 47%. Given the mature nature of Italy's hospitality sector, this represents a significant increase.

The growth in employment corresponds to a total increase in turnover of 29% in the same period, suggesting that the average output added per employee (a measure of productivity) has fallen.



Source: Eurostat

Restaurants were the largest employer in the sector in 2009, with 41% of total employees, as well as contributing the largest number of new jobs (an increase of 81% between 2000 and 2009). Bars employ the second highest proportion at 24%, with hotels employing a further 18%.



Source: Eurostat

Whilst employment levels per enterprise have remained constant, the level of turnover generated per employee has fallen significantly for camping/short stay enterprises, and in particular for bars, where an additional six people were employed in 2009 for every €1m of turnover.

Enterprise Focus

BARS

The number of bars in Italy increased by only 229 (a 0.2% increase) between 2000 and 2009 and ended the period with a total below that of peaks in 2001 and 2008. Following the global economic crisis the number of bars in Italy was particularly hard hit, with total revenues falling by 25% in one year leading to the number of enterprises falling by over 2,300 or approximately 46 per week.

RESTAURANTS

Italy is world renowned for its gastronomy, which serves as a key attraction for international tourists and for locals alike. Reflecting this, the number of restaurants across the country grew in every year between 2000 and 2009, with over 123,000 by the end of the period (41% more than in 2000).

Whilst the number of bars and hotels fell between 2008 and 2009, the number of restaurants grew by over 2,000 enterprises, providing welcome stimulus to the wider economy.

Restaurants in Italy are also a major employer, directly providing around 515,000 jobs, an increase of 81% from 2000. The number of enterprises and volume of labour grew at a significantly faster rate than overall turnover to the end of 2009. This has placed pressure on average revenues, productivity and wages.

Whilst the sub-sector has shown particular resilience during the economic downturn in Italy, there may be some risk, when considering the short term economic outlook and squeezes on disposable incomes, on overall revenues and the viability of the capacity expansion going forward.

HOTELS

The total number of hotel enterprises in Italy grew by 9.6% between 2000 and 2009 to almost 24,700[1], whilst total turnover grew by 27%. The final year of the period, however, saw a 5% fall in turnover from the year before, resulting in a net decrease of over 1,200 hotel enterprises (23 a week) and a loss of 8,250 jobs.

The tourism tax introduced in 2011 has a varying impact, depending upon location, season and class of hotel. It is, however, an additional cost to consumers (leisure and business) who are paying ever closer scrutiny to their expenditure. The increase in VAT in 2013 may also further squeeze disposable incomes and discretionary spending.

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1 This number reflects the total hotel enterprises. It has been noted that the actual number of establishments, considered as hotel or similar, is around 33,000.

Latvia

Latvia

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**8.7%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**10.1%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€982m** (5.4% of the total)
GDP	**€408m** (2.3% of the total)
Employment	**46,000** (5.0% of the total)

Total tax contribution of hospitality	**€107m**
Excise	**€6m** (5.0% of the total)
VAT	**€79m** (74.0% of the total)
Employment	**€22m** (21.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.25** is spent in the wider economy.

Key Messages

- The Latvian hospitality sector is characterised by exceptionally high growth in output and employment after 2003, massively outperforming the wider economy until the downturn which saw performance decline. At the same time it paid relatively little (about 10% as a percentage of GVA) in terms of excise, VAT and employment taxes.
- Net disposable incomes more than tripled between 2000 and 2008.
- In common with the Nordic countries, the large majority of beer sales (more than 90%) are in the off-trade and there is a relatively small bar sector.

Summary

The Latvian economy experienced a particularly strong period of economic expansion following accession to the EU in 2004. In the four years to 2008, the economy grew at an average of 20% per annum, with the hospitality sector becoming an increasingly important contributor, growing at 22% per annum in the same period.

The economic downturn of 2009 had a particularly negative impact upon the Latvian economy. Total GDP fell by 19% in 2009 with the hospitality sector experiencing an even stronger downturn, of 32% in one year. Recent strong economic performance provides some positive signs that the hospitality sector can return to growth and recapture some of the market lost in 2009.

The hospitality sector grew quickly post 2003 to peak at €603m in 2008, followed by a sharp recession in 2009 and the start to recovery in 2010 (finishing the period with turnover of €437m). Restaurants accounted for 55% of hospitality turnover (at €239m) and 60% of employees (15,172) in 2010, with hotels representing around 23% of turnover and 16% of employees. In terms of the number of hotels, the sector has shown particular resilience to the downturn, with total enterprises increasing post 2008, despite a 26% fall in turnover.

In contrast to many European economies Latvia reduced the standard rate of VAT in 2012 by 1 percentage point to 21%, with a reduced rate of 12% applied to accommodation. This has had a significant impact upon accommodation, with hotel turnover in 2012 returning to 2008 levels. The success of this may be translated to other sub-sectors, were the reduced rate extended. Since 2008, there have been several increases in the excise duty applied to alcoholic beverages, which is now 56% higher for beer.

Of particular importance for the hospitality sector going forward is the government's planned reductions in income tax. Current government plans will reduce income tax levels by 5 percentage points between 2013 and 2015, providing a direct and significant increase to consumers' disposable incomes and purchasing power.

Economy Overview

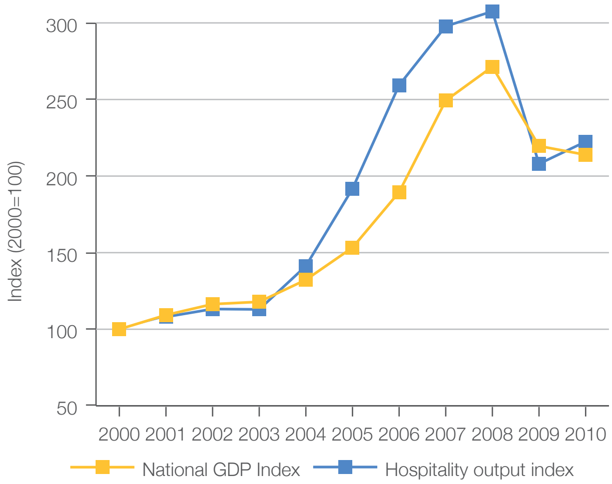
The Latvian economy experienced a particularly strong period of economic expansion following accession to the EU in 2004. In the four years to 2008, the economy grew at an average of 20% per annum, with the hospitality sector becoming an increasingly important contributor, growing at 22% per annum in the same period.

The economic downturn of 2009 had a particularly negative impact upon the Latvian economy. Total GDP fell by 19% in 2009 with the hospitality sector experiencing an even stronger downturn, of 32% in one year.

Despite the recession in 2009, the hospitality sector is still a significantly larger contributor to economic activity in Latvia than it was at the start of the period. Recent strong economic performance provides some positive signs that the hospitality sector can return to growth and recapture some of the market lost in 2009.

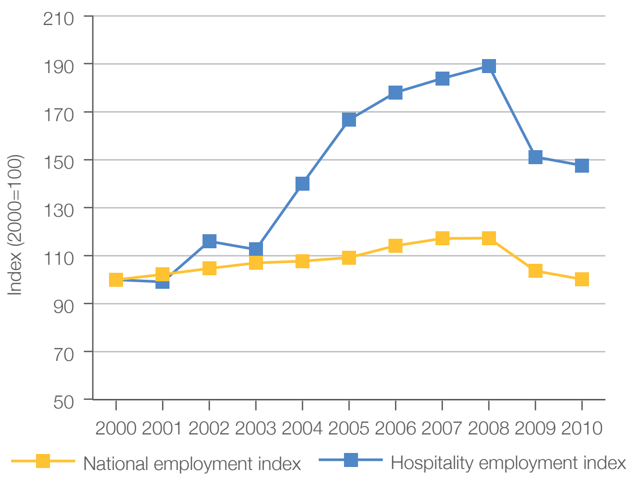
Employment (and resulting falls in consumer incomes and spending) remains a challenge following a consistent fall since 2008 in the economy as a whole and the hospitality sector, although planned reductions to income taxes between 2013 and 2015 should help to directly boost confidence in the market.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

Latvia experienced rapid growth from 2004 to 2008 following EU entry (2004) before suffering a sharp downturn in 2008 that continued in 2010.

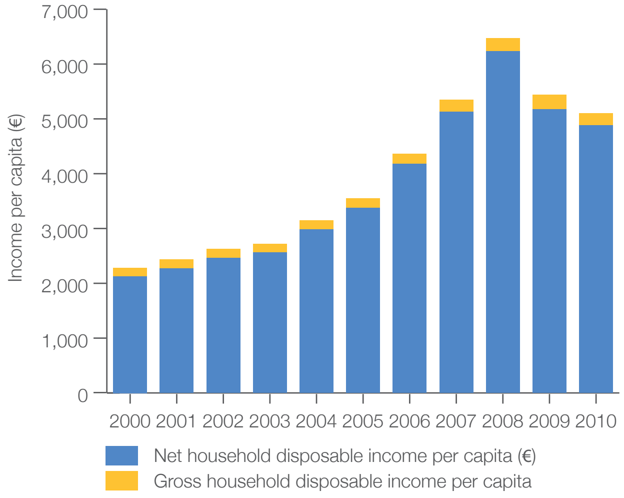
The boom prior to 2008 was largely fuelled by foreign investment, transfers from the EU and a property price boom which left the economy vulnerable in 2008. The hospitality sector experienced a similar overall trend, growing faster and earlier reaching a peak of three times its 2000 level of output in 2008. In nominal terms, 2010 saw an increase in output from the sector of 7% in contrast to nominal GDP overall which fell by 2.5%.

Inflation in Latvia over the 2000 to 2010 period has grown at a compound annual growth rate of 5.4%. Adjusting for inflation, average GDP growth over the period was 2.5%, and growth in the hospitality sector was 2.9%.

Employment in the hospitality sector experienced strong growth over the period however it grew less rapidly than output: reaching 1.9 times its 2000 level in 2008.

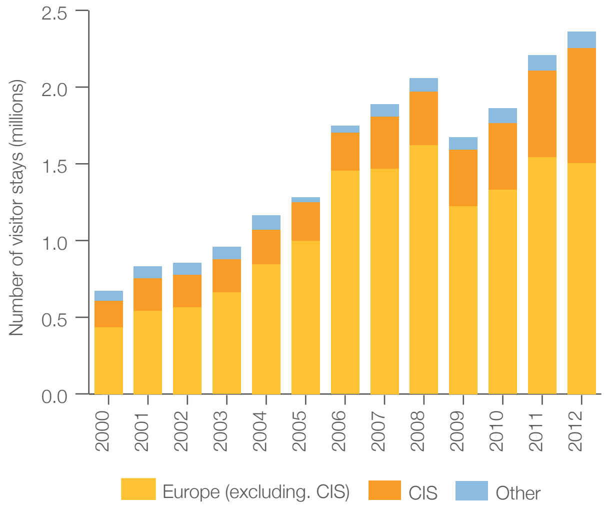
The hospitality sector has become an increasingly important provider of employment in Latvia, with job opportunities increasing at a quicker rate than the economy as a whole during the period.

Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Number of visitor stays[1], 2000-2012



Source: Latvian Central Statistical Bureau

Real disposable income also grew rapidly between 2000 and 2008 broadly matching the growth in GDP. Net household disposable income per capita grew by around 130% over the decade.

The Latvian government has begun to unwind austerity measures which are aimed at entry to the Euro in 2014, claiming to have met the Maastricht criteria in 2012. These measures have impacted disposable incomes, and alongside rising unemployment, have resulted in falling disposable incomes from 2008 onwards.

Latvia plans to reduce income tax rates by five percentage points between 2013 and 2015, which should help bolster consumer demand.

The number of international visitors to Latvia increased significantly from 2000 to 2008, particularly visitors from Europe, with accession to the EU in 2004 expanding the potential market for Latvia.

The same tourists who helped generate the growth contributed to the slow down, with the number of European visitors declining markedly in 2009 and again in 2012.

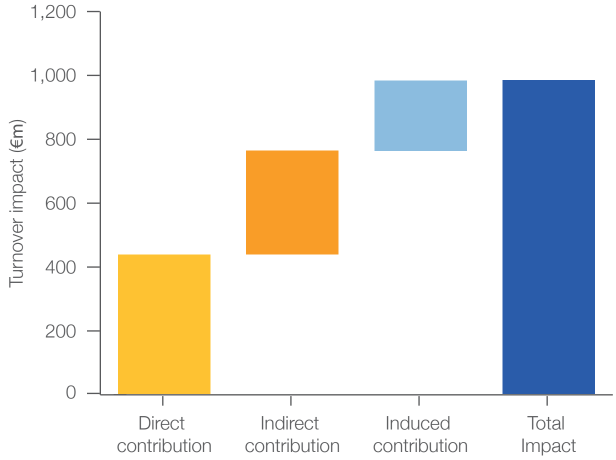
An increase in tourists from Russia in 2011 and 2012 has bolstered the number of international visitors, resulting in the number exceeding the 2008 level in recent years.

1 This relates to the number of nights that international visitors have spent in Latvia

Economic Contribution of the hospitality sector

The total turnover supported by the Latvian hospitality sector is estimated to be €982m in 2010. Latvia's hospitality sector contributes almost €408m of value added to GDP, equating to 2.3% of the total. In delivering this output the sector supports 46,000 employees in total, equivalent to around 5% of the workforce. For every €1 spent by the sector, an additional €1.25 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

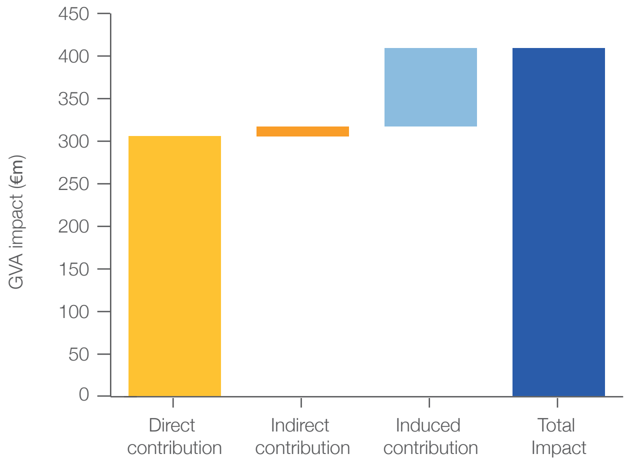


Source: Eurostat, EY calculations

The total turnover supported by the Latvian hospitality sector in 2010 was over €982m which equates to approximately 5.4% of output. Of this €436m is directly contributed by the hospitality sector.

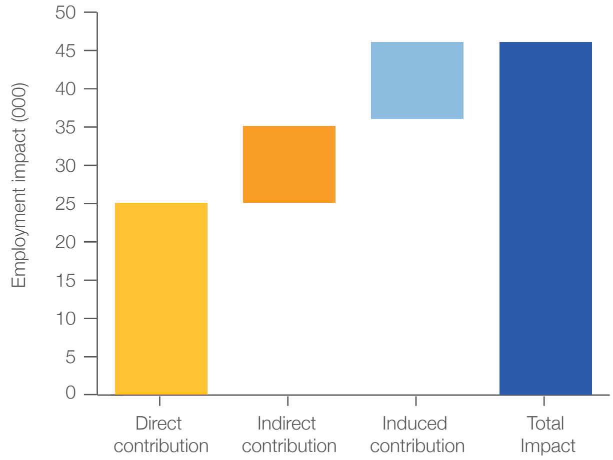
Latvia has an indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') of 1.74, meaning that for each €1 spent in the hospitality sector, a further €0.74 is spent in the supply chain.

GDP impact of hospitality sector, 2010



The total contribution to GDP by the Latvian hospitality sector is estimated at €408m, or 2.3% of the total.

Employment impact of the hospitality sector, 2010



The hospitality sector directly employed around 25,000 people in 2010, and supported a further 21,000 in the wider economy. This equates to around 5% of the total workforce.

Regulation / Taxation

In contrast to several other European economies Latvia reduced the standard rate of VAT in 2012 by 1 percentage point to 21%. A reduced rate of VAT of 12% is applied to accommodation only. Whilst the reduction in VAT to 21% in 2012 is a welcome boost for consumer spending, of particular importance for the hospitality sector is the planned reductions in income tax. Current government plans will reduce income tax levels by 5 percentage points between 2013 and 2015, providing a direct and significant increase to consumers' disposable incomes and purchasing power.

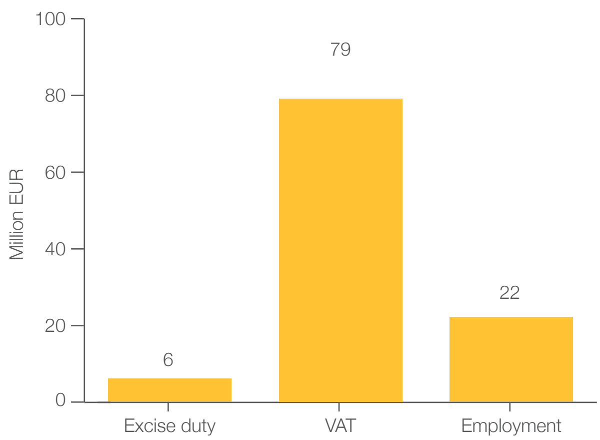
Since 2008, there have been several increases in the excise duty applied to alcoholic beverages, which is now 56% higher for beer and 50% higher for spirits and wine.

Tax Receipts

The Latvian hospitality sector is estimated to have contributed almost €107m to the Exchequer in 2010 from excise duty, VAT and employee related contributions.

Of this, €6m was raised in excise duties arising from the sales of alcoholic beverages in the hospitality sector, and €79m from applicable gross VAT receipts (VAT deductions are not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, income taxes and employers and employees social security contributions raised €22m in revenue for the exchequer in 2010.

Excise Duty

There have been several increases in alcoholic beverages excise duty since 2008, the most recent being an increase in spirit duty in 2011.

Beer duty is currently 56% above the 2008 rate at LVL 2.18 per % abv / hl. Duty on wine and spirits is 50% above the 2008 rate at LVL 45 /hl and LVL 940 / hl pure alcohol respectively.

A large rise in beer duty has a big impact upon the bar and café sub-sectors which sell a higher proportion of beer than wine or spirits.

VAT and Reduced rates

In contrast to several other European economies VAT in Latvia was reduced from 22% to 21% in 2012 in an attempt to bolster consumer spending. Future reductions in the income tax rate, planned to total 5 percentage points between 2013 and 2015, are expected to further boost consumer spending power.

A reduced rate of VAT of 12% applies to accommodation services in Latvia.

Other taxes

Non-alcoholic beverages are also subject to excise duty at a rate of 5.2 Lati (€7.3) per 100 litres. The duty rate for coffee is 100 Lati per kg (€141).

Hospitality sector in focus

The hospitality sector grew quickly post 2003 to peak at €603m in 2008, followed by a sharp recession in 2009 and the start to recovery in 2010 (finishing the period with turnover of €437m).

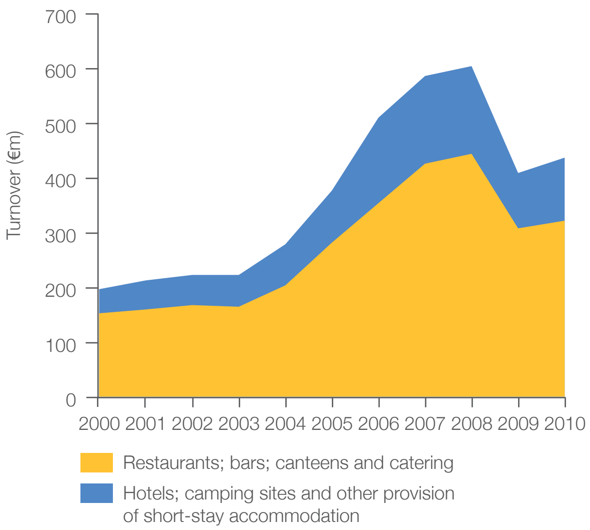
Bars have faced pressure from the recession, a growth in the off-trade and an increase in illegal imports from Russia. This resulted in a fall in turnover of 30% in 2009 from a peak of €50m in 2008, and a subsequent loss of 23% of employees. They have weathered these pressures to bounce back strongly in 2010, with turnover increasing by 26%, although the sector continued to lose enterprises and employees.

Restaurants accounted for 55% of hospitality turnover (at €239m) and 60% of employees (15,172) in 2010. As with the rest of the hospitality sector, restaurants suffered a decline in 2009, losing 33% of turnover and 22% of employees (equal to around 4,500 jobs).

Hotels represented around 23% of total sector turnover and 16% of total employees. In terms of the number of hotels, the sub-sector has shown particular resilience to the downturn, with total enterprises increasing post 2008, despite a 26% fall in turnover. The sub-sector experienced some recovery in 2010 partly due to increased tourists from Russia making up for reductions in those from the EU.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010



Source: Eurostat

The growth in the hospitality sector mirrored that of the economy as whole, accelerating quickly post 2004 to peak at €603m in 2008, followed by a sharp recession in 2009 and the start to recovery in 2010 (finishing the period with turnover of €437m).

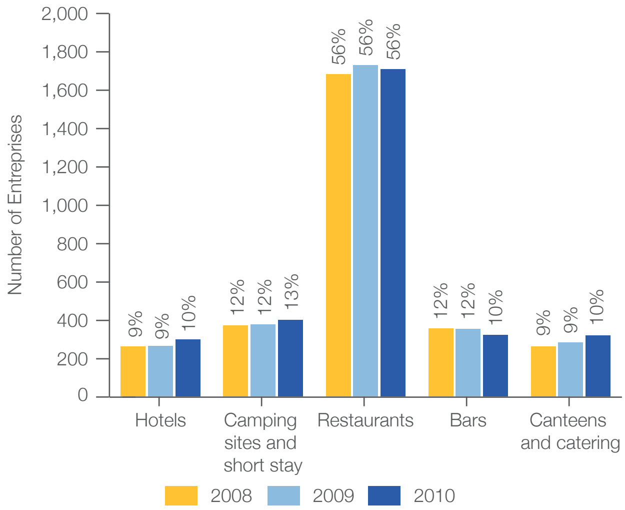
The accommodation sub-sector represented 26% of total hospitality sector turnover in 2010 and grew more rapidly than restaurants, bars and catering over the 2000 to 2010 period (increasing by 160% versus 110%), with increased numbers of international visitors and growing trade links following EU entry in 2004, providing significantly larger markets for operators to compete for.

In 2009 turnover fell by 32% and employment fell by 20% in the sector as a whole. The hospitality sector made a relatively strong recovery in 2010, however, with bar sub-sector turnover growing by 26% and hotel turnover by 14%. The recovery in tourism in 2010 helped to support this recovery.

Despite this fall in demand, the number of enterprises continued to grow in 2009 and 2010, to a total of over 3,100.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



Source: Eurostat

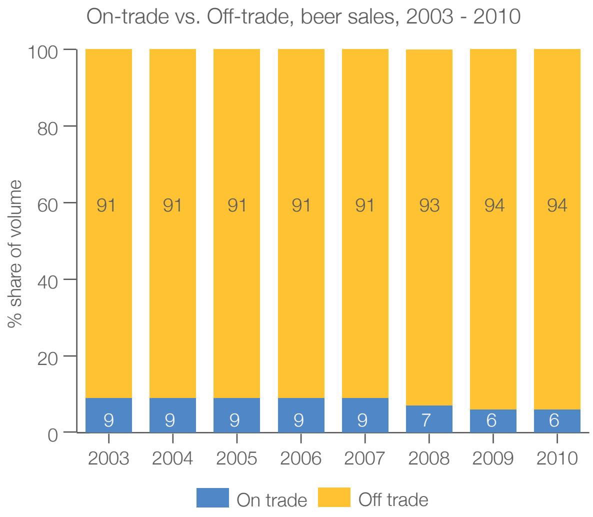
Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Restaurants are the largest sub-sector in Latvia, representing 55% of total turnover and establishments in 2010. The number of restaurants has grown throughout the period, to over 1,700 in 2010. The impact of the recession, in terms of enterprise numbers, was most keenly felt in the bar sub-sector, with a loss of 10% of enterprises in two years post 2008.

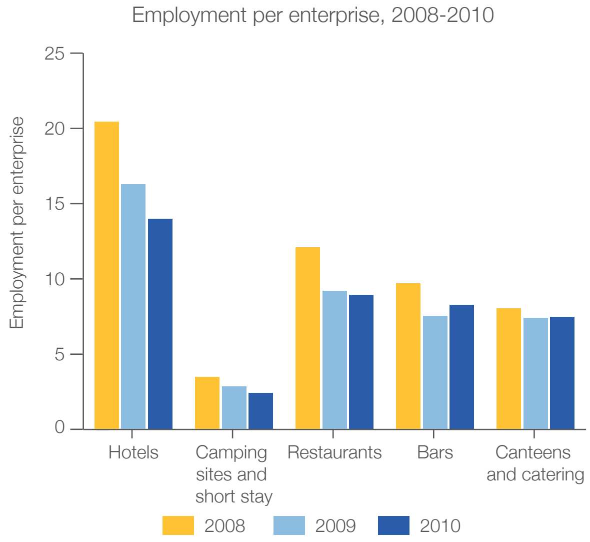
Hotels accounted for 10% of all hospitality enterprises in 2010, at 295, growing by 13% from 2008 levels. The introduction of a reduced VAT rate for accommodation has been particularly important in this success, supporting hotels in a return to 2008 levels of turnover by the end of 2012.

This suggests that consumers in Latvia are sensitive to changes in VAT rates and that an expansion of the reduced rate to other sub-sectors may help to further support their recovery, generating turnover and jobs.

On-trade vs. Off-trade



Source: The Brewers of Europe



Source: Eurostat

In common with other Nordic and Baltic countries the off-trade dominates beer sales in Latvia, accounting for 94% of the volume of sales in 2010. This has increased since 2003 when it accounted for 91%, reflecting a trend for in-home entertainment and a combination of rising excise duties and dampening incomes.

A side effect of the economic environment and higher excise duties in Latvia has been a noted increase in illicit trade with cheaper alcoholic drinks being smuggled from Russia and Belarus.

The impact of this shift in consumption patterns has been witnessed in the relatively poor performance of the bar sub-sector in recent years. A movement in consumption away from the hospitality sector to the off-trade reduces the wider economic and employment benefits it generates.

Employment in the hospitality sector

The hospitality sector directly employed around 25,400 people in 2010. This represents a decrease of around 22% from the peak of 32,500 in 2008, reflecting the increasing pressure on operator profit margins, amid increasing competition and a sluggish demand environment.

Restaurants were the largest employer in the sector in 2010, with just under 15,200 employees (60% of the total). Hotels employed over 4,100 (16% of the total) and bars employed around 2,600 (10% of the total).

Whilst the bar sub-sector was impacted more severely in terms of the number of enterprises, the fall in employment between 2008 and 2010 was consistent across all sub-sectors.

Total employment in the sector fell during 2009 and 2010 partly reversing some of the strong growth earlier in the decade.

Despite this fall, the contribution that the hospitality sector has made to wider employment should be highlighted, with the 2010 level still 48% higher than the 2000 level.

Enterprises in the sector have tended to employ fewer employees as they seek to cut operating costs, with the greatest reductions amongst Hotels and Restaurants.

Enterprise Focus

BARS

Bars in Latvia have faced pressure from the trend of increasing home entertainment and the growth in the proportion of off-trade sales. This is reflected in the fall of on-trade by 3 percentage points between 2003 and 2010 and the 10% reduction in the number of enterprises.

Despite the longer term pressures turnover in bars picked up in 2010, by 26%, reflecting one of the strongest recoveries in the hospitality sector.

RESTAURANTS

Over the long term reductions in VAT and income tax may prove opportunities for a return to turnover growth. The cost reductions in terms of employment and wages enabled the number of establishments to remain broadly constant despite the reduction in turnover. This has placed significant pressure on operator profit margins.

HOTELS

Turnover in the accommodation sub-sector increased to over 2.5 times its 2000 level by 2008. The number of enterprises increased more than six-fold. This has primarily been driven by growth in international visitors (both tourism and business travel).

Hotels experienced 14% growth of turnover in 2010 following the recession which saw a reduction of 33%.

An increase in international visitors from Russia has partly protected the sub-sector from the Eurozone recession. A return to growth across much of Europe would further assist the hotel sub-sector in recovering to 2008 levels of turnover.

Lithuania

Lithuania

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**8.8%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**11.2%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€881m** (3.2% of the total)
GDP	**€510m** (1.8% of the total)
Employment	**53,000** (4.0% of the total)
Total tax contribution of hospitality	**€131m**
Excise	**€3m** (2.0% of the total)
VAT	**€72m** (55.0% of the total)
Employment	**€56m** (43.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.97** is spent in the wider economy.

Key Messages

- Following accession to the EU in 2004, the number of accommodation enterprises more than tripled in the four years to 2008, as the hospitality sector became an increasingly large contributor to economic growth.
- The recession in 2009 resulted in a loss of around 8,500 jobs (20% of the 2008 total), highlighting sensitivity to economic performance.
- Alongside contracting disposable incomes the increases in VAT, abolishment of the reduced rate and increases in excise duties have restricted purchasing power; resulting in a loss of two bars per week since 2008.

Summary

The hospitality sector grew rapidly prior to 2008, but has since been impacted by the domestic and wider European economic downturn. Government austerity, falling tourism and growing unemployment have resulted in lower disposable incomes domestically, and a reduced inward spend from both business and individuals. The double increase of VAT in 2009, alongside the abolishment of the reduced VAT rates in the same year, has placed upward pressure on prices and demands upon other non-discretionary spending.

Restaurants account for the largest proportion of all hospitality spending, with 52% of the total in 2010. Hotels account for a further 21% and bars for 13%. The growth in the hospitality sector, following entry to the EU in 2004 through to the economic downturn of 2008, is reflected in a rapid rise in the number of accommodation enterprises, more than tripling in those years alone.

The impact of the downturn upon total turnover and resulting employment is significant and reflects one of the largest contractions in the sector across Europe. In total, around 8,500 jobs have been lost in the sector alone (20% of the 2008 total), rising to over 13,000 if the impact upon the wider economy is included.

Despite the number of accommodation and restaurant enterprises remaining resilient (against a backdrop of falling revenues) the number of bars has fallen by over 100 (over 2 per week net of bar openings). The already low proportion of on-trade beverage sales has fallen by 1 percentage point since 2008, reflecting the mix of higher sales costs, and a reliance on tourist trade.

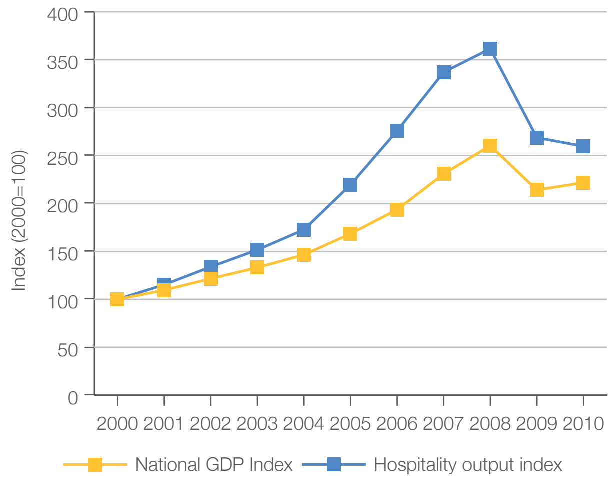
The increase in overall tax burden upon hotels in 2009, with VAT up from 9% to 21% resulting from the abolishment of the reduced rate, was a contributory factor to a fall in turnover of around 30% in that year. Whilst turnover has since stabilised, the sector faces increasing pressure to remain competitive from a regional tourism perspective. The introduction of a per night tourism tax for two resorts in Lithuania is a further challenge from a pricing perspective.

Economy Overview

As has been witnessed across the majority of countries who entered the EU in 2004, Lithuania witnessed relatively high growth in GDP in the subsequent years. This was achieved without a significant rise in overall employment, resulting in higher average incomes (which grew by over 50% between 2004 and 2008). The hospitality sector saw a similar pattern of growth, reflecting the growing connections with the wider EU, and the business and tourist trade that it brings.

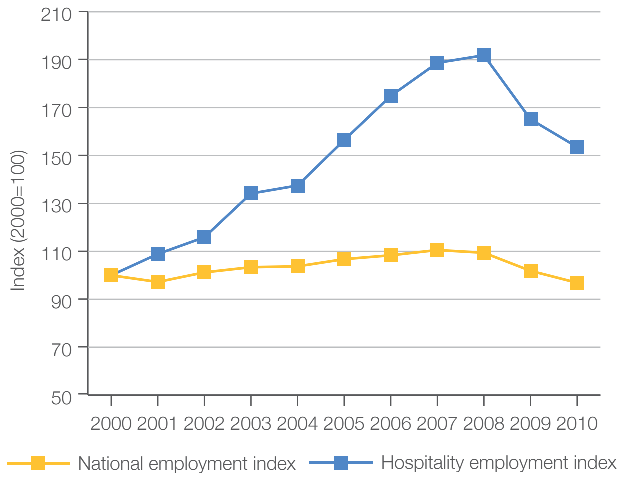
Lithuania has, however, been particularly impacted by the economic downturn, with a fall in GDP of 15% between 2008 and 2009, resulting in a decline in both incomes and employment levels. The recovery since 2010 has provided some positive signs going forward, with growth of 5.9% in 2011 and 3.6% in 2012.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



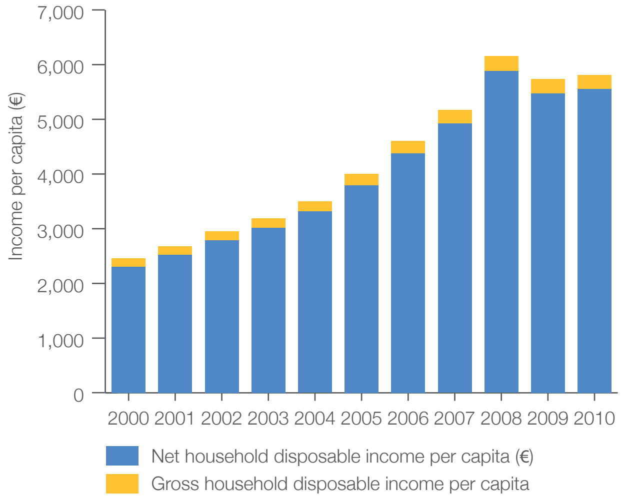
Source: Eurostat

Over the period, Lithuania's GDP grew at an average annual rate of 8.8%, slower than the hospitality sector (11.2%). The high average growth rates are primarily driven by accelerated growth after 2004 (20%) when Lithuania joined the EU. Both GDP and hospitality turnover fell sharply between 2008 and 2010, by 15% and 28% respectively, highlighting how sensitive the hospitality sector is to wider economic performance.

Inflation in Lithuania over the 2000 to 2010 period has grown at a compound annual rate of 3%. Adjusting for this, average GDP growth over the period was 7% and growth in the hospitality sector was 8%.

In a similar way to output, hospitality employment grew rapidly from 2004 to 2008 (8.7%) before falling sharply in 2009. In contrast, national employment had a negative growth rate across the decade (at -0.3%). This highlights the increasingly important role the hospitality sector has as an employer in the country.

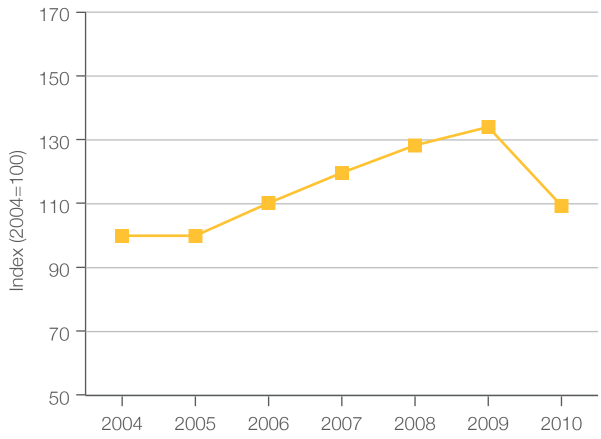
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

In real terms, net disposable income has grown by over 9% per annum across the period in Lithuania, reaching a peak of €5,880 in 2008. The impact of falling activity and government austerity can be seen in the fall in incomes witnessed in 2009.

Tourism index, 2004-2010



Source: Eurostat

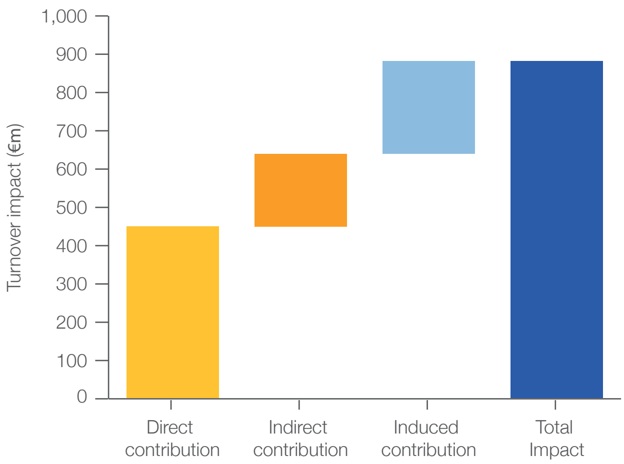
Tourism has followed a similar growth path to the other economic indicators in Lithuania, with growth of around 38% between 2004 and 2008, fuelled by increasing accessibility and the relative price competitiveness of Lithuania as a destination. The removal of reduced rates on accommodation, and increases in standard VAT may impact this price competitiveness going forward.

Economic Contribution of the hospitality sector

The hospitality sector contributes directly to the EU's economic activity; it contributes to the EU's GDP through the Gross Value Added it creates; and it supports jobs. The sector also generates additional demand for goods and services along the sector's supply chain, known as the indirect effect. Finally, the hospitality sector generates an induced effect arising from households spending a share of the additional income generated through the provision of labour and the consumption of goods and services.

The total turnover impact of the Lithuanian hospitality sector is €881m, 3.2% of output. This equates to a value added to GDP of €510m, 1.8% of the total, and supports over 53,000 jobs. For every €1 spent by the sector, an additional €0.97 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

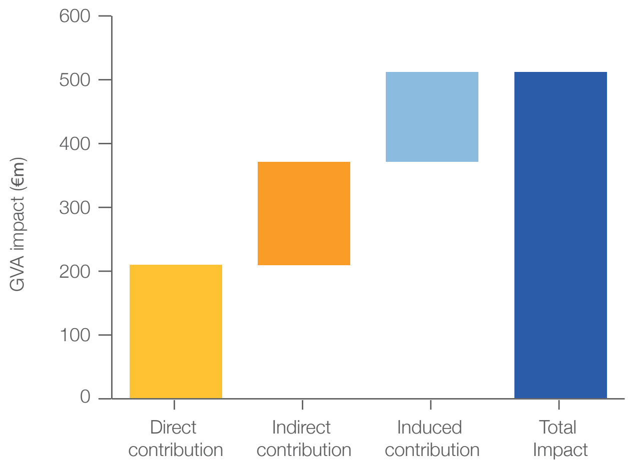


Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector in 2010 was €881m, 3.2% of total economic output in Lithuania. Of this, €190m is created in the sector supply chain and €242m through the wider distribution of wealth from the hospitality sector (i.e. the wages paid to employees and the consumption this induces).

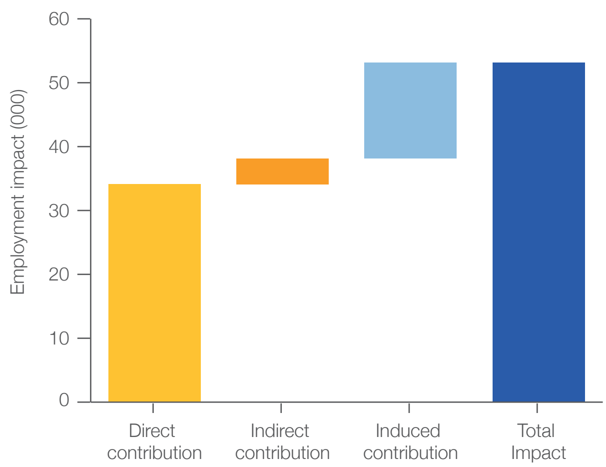
Lithuania's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.43, meaning that for every €1 spent by the hospitality sector an additional €0.43 of demand is generated in its supply chain.

GDP impact of hospitality sector, 2010



In 2010 the total value added to GDP was €510m, 1.8% of the total and one of the lowest proportions in Europe. This may reflect the relatively small domestic sector, and the impact the economic downturn had upon overall contribution.

Employment impact of the hospitality sector, 2010



The hospitality sector in Lithuania directly employs 34,000 individuals with a further 4,000 employed in the supply chain. Compared to the indirect contribution, the induced contribution is relatively large, with 15,000 more job opportunities supported. In total, this equates to around 53,000 jobs, or 4% of the workforce.

Regulation / Taxation

Since 2008, the government in Lithuania has increased both excise duty and VAT. The standard rate of VAT was increased twice in 2009, from 18% to 19% in January and then to 21% in September of that year.

In 2009, Lithuania also became the first country in the EU to remove reduced rates of VAT. This led to an increase in VAT for hotels from 9% to 21%, one of the largest increases seen across Europe and a significant additional burden to operators. Lithuania is one of only four European countries to not apply a reduced VAT rate to accommodation.

The impact of the increased VAT rates not only directly impacts hospitality from an absolute pricing perspective, but also reduces overall discretionary income (as the costs' of other goods also increases so consumers have less to spend on hospitality).

Excise duty rises of 10-15% on all types of alcoholic beverages have placed further pressure on the hospitality sector's ability to remain competitive.

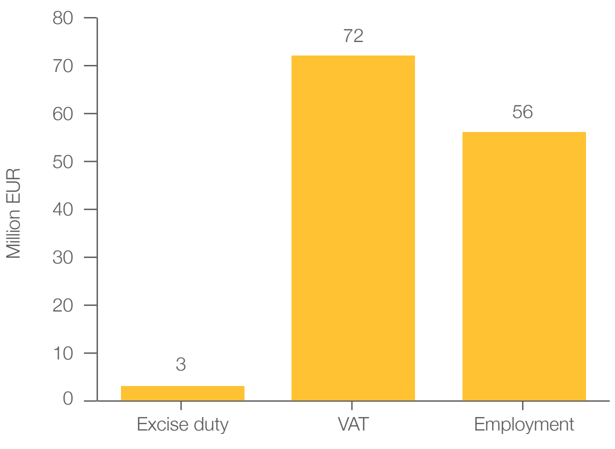
In 2012, tourist taxes were introduced in two resorts in Lithuania. At the present time, they are less than €1 per person per night, with the funds being used to develop infrastructure and promote tourism in the area.

Tax Receipts

The hospitality sector in Lithuania is estimated to have contributed €131m to government revenues in 2010 from excise duty, VAT and employment related contributions (employee and employer).

Of this, €3m was raised in excise duties arising from the sales of alcoholic beverages through on-trade channels. The Lithuanian government also collected an estimated €72m in revenue raised from gross VAT receipts (i.e. not accounting for VAT deductions) on hotels and restaurants and a further €56m from employment related taxes.

Tax receipts by type, 2010



Source: EY calculations

Excise Duty

There were notable increases in duty of between 10-15% on beer, wine and spirits in 2009. Since then, duty on alcoholic beverages has remained unchanged. Beer duty is LTL 8.5 per % abv / hl, wine duty is LTL 198 / hl and spirits duty is LTL 4,416 / hl pure alcohol.

VAT and Reduced rates

At the present time, a standard rate of VAT of 21% applies to the whole hospitality sector in Lithuania. In 2009, Lithuania set a precedent in Europe by becoming the first state to abolish all reduced rates of VAT.

On top of this, the standard VAT rate was raised twice: firstly in January by one percentage point from 18% to 19% and again in September by a further two percentage points to 21%. Consequently, the joint effect of these changes meant the rate of VAT applied to hotels increased by 12 percentage points from a reduced rate of 9% to the standard rate of 21%.

The primary reason for this tax reform was as a result of government requirements to help balance spending budgets through a broader and deeper tax base.

Other taxes

Two resorts in Lithuania, Palanga and Druskinink, levy tourism taxes on nights spent in a hotel or private apartment. The taxes range from LTL 1 to LTL 2 which is between €0.30 and €0.60 at current market exchange rates.

The tax was introduced in 2012 in Palanga, with funds to be spent on improvement of the city's infrastructure and marketing of tourism in the area.

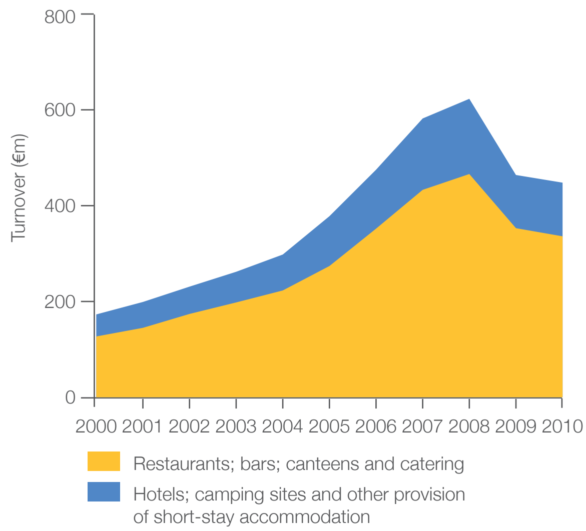
Hospitality sector in focus

Restaurants account for the largest proportion of all hospitality spending, with 52% of the total in 2010. Hotels account for a further 21% and bars for 13%. The growth in the hospitality sector, following entry to the EU in 2004, through to the economic downturn of 2008 is reflected in the rise in the number of accommodation enterprises, more than tripling in those years alone.

The impact of the downturn upon total turnover and resulting employment is significant and reflects one of the largest contractions in the sector across Europe. In total, around 8,500 jobs have been lost in the sector (20% of the 2008 total), rising to over 13,000 if the impact upon the wider economy is included.

Despite the number of accommodation and restaurant enterprises remaining resilient (against a backdrop of falling revenues) the number of bars has fallen by over 100 (two per week net of bar openings). The already low proportion of on-trade beverage sales has fallen further since 2008, reflecting the mix of higher sales costs (due to higher VAT and excise duties), pressure on domestic incomes and a reliance on tourist trade.

Turnover in the hospitality sector

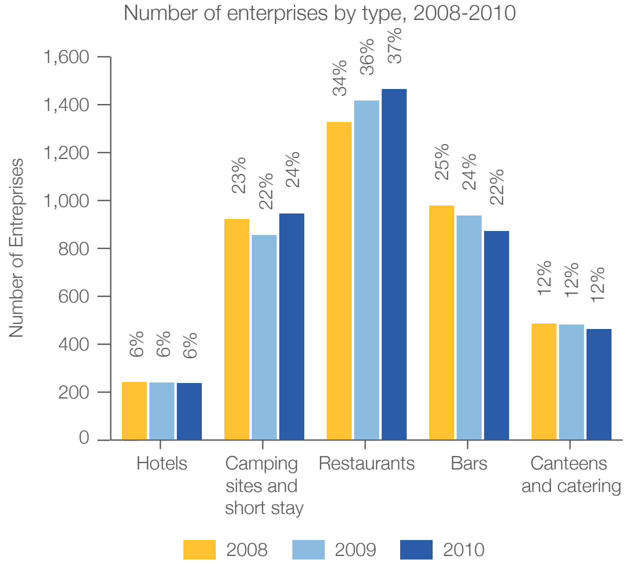


Source: Eurostat

Turnover generated from the hospitality sector reached a peak of €624m in 2008, after strong growth (20.3%) following Lithuania's accession to the EU in 2004. The food and beverage sub-sector has consistently held a 75% market share in the hospitality sector over the period, even though total turnover varied significantly across the decade.

Despite the economic downturn and the increase in VAT from 9% to 21% in 2009, turnover from hotels remained nominally constant in 2009 and 2010 at €63m.

Enterprises in the hospitality sector



Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

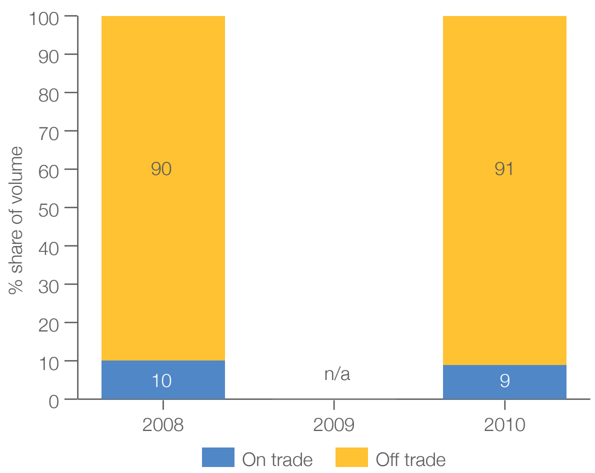
The economic downturn has impacted some sub-sectors more than others with respect to the number of enterprises, whilst the downturn in turnover has been fairly consistent.

The reduction in the number of bars reflects a greater sensitivity to fluctuating demand and changes to the economic and fiscal environment. A fall in tourism, higher tax burden and increasing proportion of off-trade sales has resulted in the net closure of over two bars a week between 2008 and 2009.

Highlighting the flexibility of the sector in challenging economic conditions, the number of restaurants actually increased during the period. Whilst this may place short term pressures on profitability it does help support a return to growth in the future.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010



Source: The Brewers of Europe

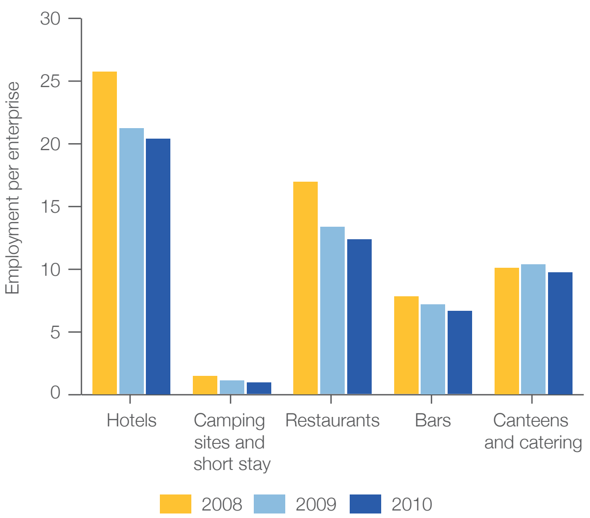
Between 2008 and 2010, off-trade sales have increased their share of the total volume of beer sold by one percentage point, from 90% to 91%. This increase in off-trade may be a result of a number of policy changes in Lithuania over these three years, such as the increases in excise duty on alcoholic beverages in 2009 and the smoking ban introduced in restaurants, bars, and clubs in January 2007.

In addition to these changes, the global economic downturn in 2007 and 2008 reduced consumers disposable incomes, further reducing demand for eating and drinking outside of the home.

Employment in the hospitality sector

The impact upon employment in the sector since 2008 has been particularly sharp, with around 8,500 direct jobs being lost (20% of the 2008 total). This total rises to over 13,000 if the impact upon the wider economy is included.

Employment per enterprise, 2008-2010



Source: Eurostat

The fall in employment is reflected in the employment per enterprise, which has fallen across all sub-sectors between 2008 and 2010. Hotels and restaurants saw the greatest fall in employees per enterprise, of five and four employees respectively. This reflects both a need to reduce costs and operate more efficiently in the face of challenging demand conditions and falling average revenue per enterprise.

Enterprise Focus

BARS

Compared to some European countries, the bar sub-sector in Lithuania is relatively small, with only 870 enterprises operating in 2010, contributing 13% to total hospitality turnover. The off-trade is comparatively large in Lithuania, taking 91% of total volume sales of beer in 2011.

Recent policy changes have had an impact upon consumer behaviour (through the smoking ban for instance) and decreased the relative price competitiveness of the on-trade for consumers. The increases in excise duty (2008 and 2009) and VAT (2009) raised the price of alcoholic beverages. When this is placed in the context of falling disposable income and wider price rises, it is clear that bars face an increasing challenge going forward.

The return to positive economic growth in 2011 and 2012 provides some relief for future prospects, providing that Lithuania is able to recover lost tourist trade and tempt domestic consumption away from off-trade purchases.

RESTAURANTS

Restaurants represent the largest sub-sector of the hospitality sector in Lithuania. Almost 1,500 enterprises were operating in the restaurant sub-sector in 2010, generating over half of hospitality turnover.

HOTELS

The hotel sub-sector in Lithuania has proved relatively resilient in terms of the number of enterprises. However, total turnover in 2009 fell by around 30% from 2008, suggesting that hotels were heavily impacted by both falling demand and the related restriction on their ability to pass on the rise in VAT, following the reduced rate abolition (from 9% to 21%), to customers.

The level of turnover stabilised in 2010 but the sub-sector faces a challenge going forward to remain competitive with other nearby tourist destinations and benefit from a return to economic growth.

The higher level of VAT has been followed in 2012 by the introduction of a tourist tax in two Lithuanian resorts. At the present time, this is less than €1 per person per night, which is relatively low compared to the cost of a hotel stay, but does add an additional uncontrollable cost for operators.

Luxembourg

Luxembourg

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**6.3%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**4.7%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€1.7bn** (4.4% of the total)
GDP	**€0.8bn** (2.1% of the total)
Employment	**33,000** (15.2% of the total)

Total tax contribution of hospitality	**€159m**
Excise	**€13m** (8.0% of the total)
VAT	**€34m** (21.0% of the total)
Employment	**€112m** (70.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.48** is spent in the wider economy.

Key Messages

- Supported by stable VAT and excise duties the hospitality sector has grown in each year between 2000 and 2010, despite the wider economy falling into recession in 2009.
- Restaurants account for around half of the sector turnover and employment, whilst bars are the largest in terms of enterprises (46%).
- Going forward, the sector may take advantage of continuing expansion in European short haul travel and associated tourist markets.

Summary

Over the 2000 to 2010 period, Luxembourg's economy has been growing at an average rate of 6.3% in nominal terms. Over the same period, the hospitality sector grew at a slower rate of 4.7%. Luxembourg was one of the first economies to be affected by the global economic downturn due to its large exposure to the financial services sector, leading to a contraction in both GDP and wider employment.

Overall, the hospitality sector in Luxembourg has proven to be relatively resilient to the economic downturn, with turnover growing every year over the 2000 to 2010 period. Restaurants are the largest sub-sector in Luxembourg's hospitality sector in terms of turnover, accounting for 48% of total sector revenue and 49% of employment in 2010. Although restaurants generate more revenue, there are a greater number of small bar enterprises in Luxembourg. This could be linked to the strong demand for purchasing alcoholic beverages through on-trade channels.

Building on positive growth in the sector in 2011 and 2012, forecast growth in consumer spending is expected to further accelerate in 2013 and 2014, which is likely to have a particular impact on the hospitality sector in Luxembourg. There is an opportunity for the sector to expand away from its focus on business customers from the financial services sector towards new markets for business customers, such as research and logistics. The growth in routes offered by low cost carriers is thought to be a potential opportunity for the sub-sector going forward, given the opportunity to target more tourist markets.

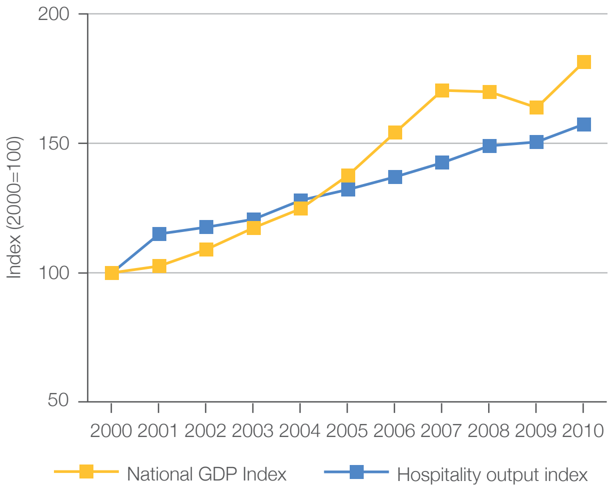
The total turnover supported by the hospitality sector is estimated at almost €1.7bn, which equates to over €0.8bn of value added to GDP (2.1% of the total). In delivering this output the sector supports approximately 33,000 employees, 15.2% of the workforce.

Economy Overview

From 2000 to 2010, nominal GDP grew at an average rate of 6.3% in Luxembourg. Over the same period, the hospitality sector grew at an average nominal rate of 4.7%. Luxembourg was one of the first economies to be affected by the global economic downturn (given its focus upon banking and finance services), leading to a contraction in both GDP and a flattening of hospitality sector turnover in 2009. Whilst Luxembourg was one of the first countries to be impacted it was also able to quickly return to growth in 2010.

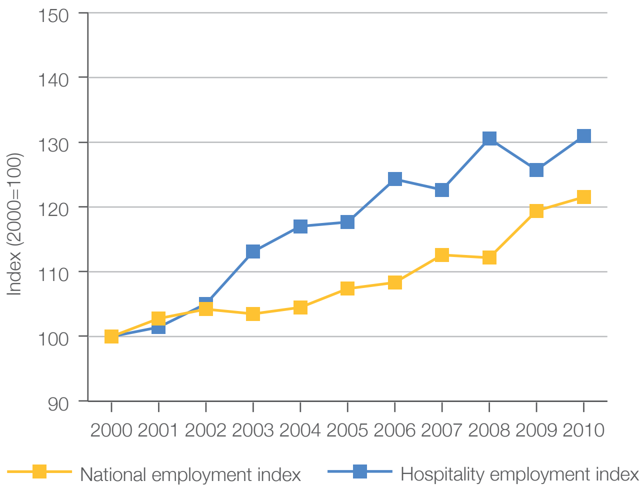
Employment in Luxembourg has grown fairly consistently over the 2000 to 2010 period, with a slight decline in 2008. Employment in the hospitality sector has been relatively more volatile, with peaks in 2006 and 2008 occurring at the same time as dips in national employment levels. Given its relative wealth and small population, Luxembourg has particularly high disposable incomes. Growth of incomes slowed between 2008 and 2009 but has not shown the decline experienced elsewhere in Europe.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

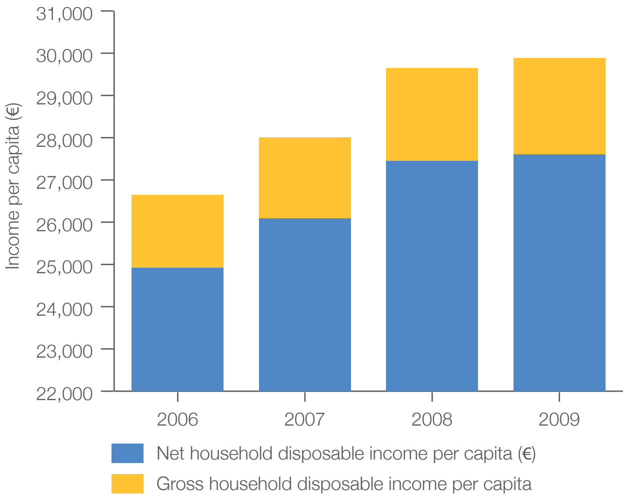
Overall, nominal GDP in Luxembourg has grown at an average annual rate of 6.3% between 2000 and 2010. Economic performance in Luxembourg has generally reflected that of the banking and financial services sectors and as such, the strong growth witnessed prior to 2008 quickly eroded, before falling into recession in 2009.

Over the same period, the hospitality sector has grown relatively smoothly, but at a slower pace than GDP in the economy as a whole (4.7% average annual growth rate).

Inflation in Luxembourg over the 2000 to 2010 period grew at an average annual rate of 3.0%. Adjusting for inflation, average real GDP growth over the period was 3.3%, and growth in the hospitality sector was 1.7%.

Employment in Luxembourg has grown relatively smoothly between 2000 and 2010, with a slight decline in 2008. Employment in the hospitality sector has been more volatile and there appears to be some counter cyclicality, i.e. employment in the hospitality sector increases when employment in the economy as a whole falls. For example, there was a peak in employment in the hospitality sector in 2008, whilst total employment in the economy declined.

Real Net and Gross disposable income per capita EUR, 2006-2009

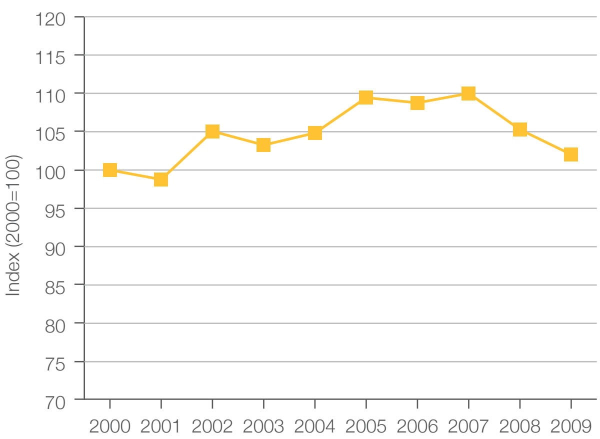


Source: Eurostat

Data on disposable income in Luxembourg was only available between 2006 and 2009. Over that period, net real disposable income per capita has increased, however the growth in income slowed somewhat between 2008 and 2009 in line with the downturn in the economy. Private consumption growth was negative for much of 2009 before turning around in 2010.

At nearly €30,000 per capita, Luxembourg has one of the highest levels of disposable income in Europe.

Tourism index, 2000-2009



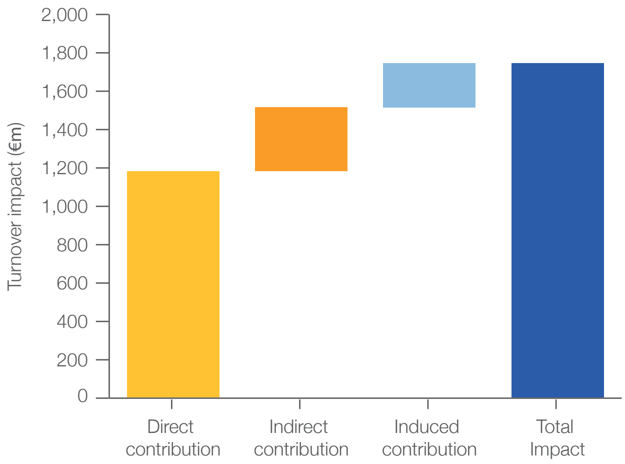
Source: Eurostat

Growth in tourism numbers has been somewhat volatile in Luxembourg. Tourism grew between 2003 and 2005, before leveling off between 2005 and 2007. Tourism has since declined from 2007 onwards. Please note that data is not publicly available after 2009.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in Luxembourg is estimated at almost €1.7bn. Luxembourg's hospitality sector contributes over €0.8bn of value added to GDP, equivalent to 2.1% of the total. In delivering this output the sector supports approximately 33,000 employees in total, equivalent to over 15% of the workforce. The economic contribution of the hospitality sector in Luxembourg is relatively low compared with the European average, whilst the employment impact is high. For every €1 spent by the sector, an additional €0.48 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' effect).

Turnover of the hospitality sector, 2010

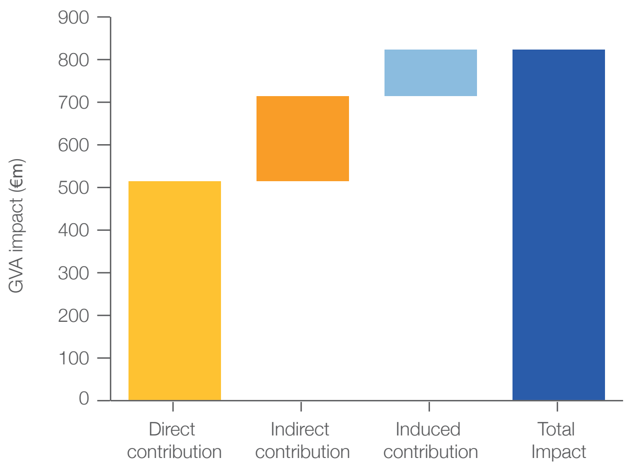


Source: Eurostat, EY calculations

Luxembourg's indirect turnover multiplier is 1.28, meaning that for every €1 spent by the hospitality sector an additional €0.28 of demand is generated in its supply chain. (The 'indirect' effect is that upon the supply chain only and does not include the 'induced' effect)

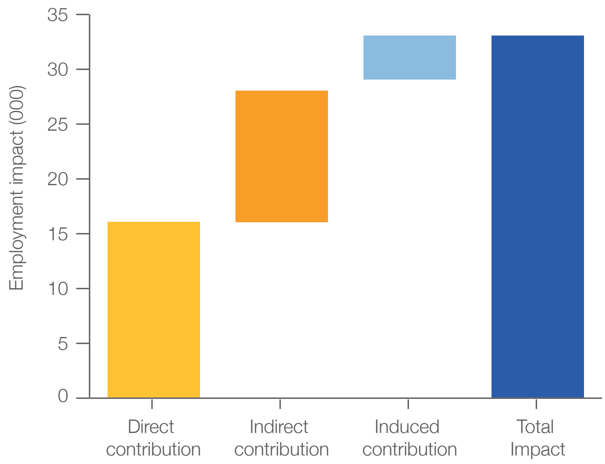
The indirect multiplier for Luxembourg is relatively small compared to the European average, suggesting that a larger proportion of inputs to the hospitality sector are imported than in other countries. The total turnover supported by the sector was almost €1.7bn in 2010, which is equivalent to 4.4% of the total.

GDP impact of hospitality sector, 2010



The total value added of the hospitality sector in Luxembourg is over €0.8bn, including direct, indirect and induced impacts. This is equivalent to 2.1% of GDP. Similarly to the turnover impact, Luxembourg has a relatively small indirect value added impact. This implies that its supply chain is composed of a relatively high proportion of imported goods.

Employment impact of the hospitality sector, 2010



In 2010, the hospitality sector in Luxembourg directly employed 16,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to employment is an estimated 33,000 jobs. This is equivalent to over 15% of total employment in Luxembourg, which is significantly higher than the European average.

This suggests that labour productivity in the hospitality sector is relatively low compared to other sectors in Luxembourg, implying that a higher number of employees are required to produce each euro of turnover than is needed in other sectors. This is consistent with an economy where high value added sectors (e.g. financial services) are relatively important.

Regulation / Taxation

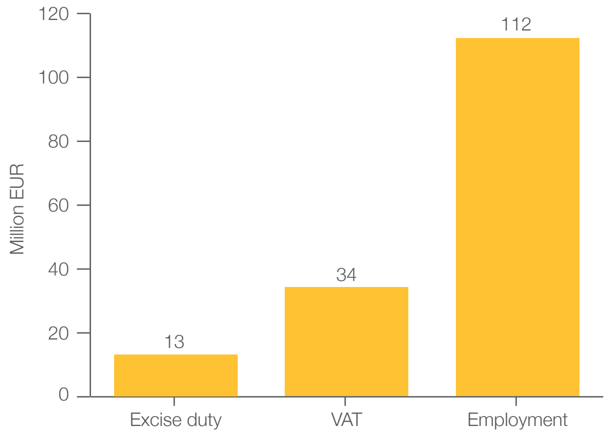
The VAT burden on the hospitality sector in Luxembourg is the lowest in Europe, with a standard rate of VAT of 15% and a reduced rate of 3% which applies to accommodation. Excise duty applies to beer and spirits, however wine is currently zero rated.

Tax Receipts

The hospitality sector in Luxembourg is estimated to have contributed €159m in tax revenues in 2010 from excise duty, VAT and employment related taxes. Of this, €13m was collected through excise duty arising from the sale of alcoholic beverages in the hospitality sector.

The government also collected approximately €34m in revenue from gross VAT receipts in 2010 (deducted VAT has not been accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, these contribute the highest amount to total tax receipts from the hospitality sector (€112m), largely driven by relatively high incomes for employees.

Excise Duty

Excise duty on beer is currently €0.79 per °Plato / hl and duty on spirits is €1,041 / hl pure alcohol, whilst wine is zero rated. These rates have remained throughout the period under review.

VAT and Reduced rates

The standard rate of VAT in Luxembourg is 15%, and has remained at this level throughout the 2000 to 2010 period. A reduced rate of VAT of 3% applies to the entire hospitality sector. This is the lowest rate in Europe.

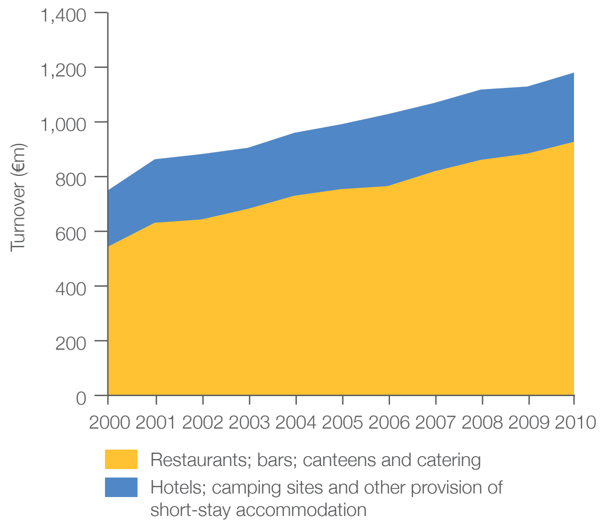
Hospitality sector in focus

Overall, the hospitality sector in Luxembourg has grown at a nominal average rate of 4.7% per annum, with the food and beverage sub-sector accounting for approximately 80% of turnover in the sector. This is a significantly higher proportion than that observed in other European countries. The hospitality sector in Luxembourg has proven to be relatively resilient to the economic downturn, with turnover growing in every year over the 2000 to 2010 period.

Although the bars sub-sector accounts for the most number of establishments in the sector, restaurants are the largest sub-sector in Luxembourg's hospitality sector, accounting for 48% of total hospitality sector turnover and 49% of employment. The restaurant sub-sector has performed well in recent years, with an increase in turnover of 8% over the period.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010

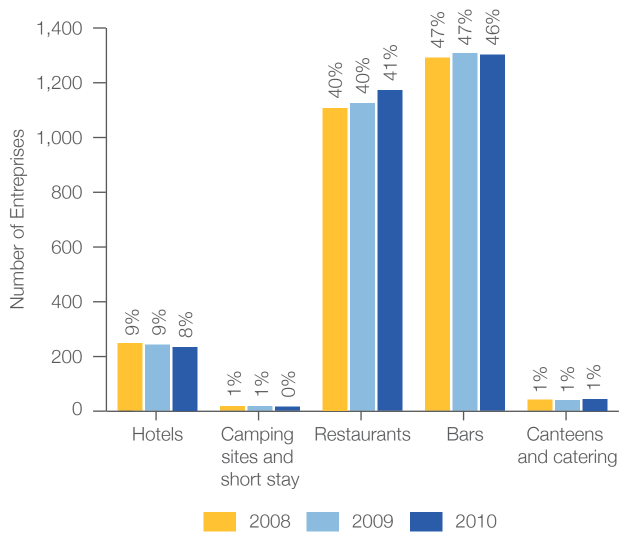


Source: Eurostat

The hospitality sector in Luxembourg has grown at an average annual growth rate of 4.7% from 2000 to reach just under €1.2bn in 2010. The sector has proven to be relatively resilient to the economic downturn, with turnover growing in every year. Restaurants and bars generate the majority of turnover in the sector, contributing almost 80% of total turnover in 2010. This is a relatively large share compared with that observed in other European countries.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



Source: Eurostat

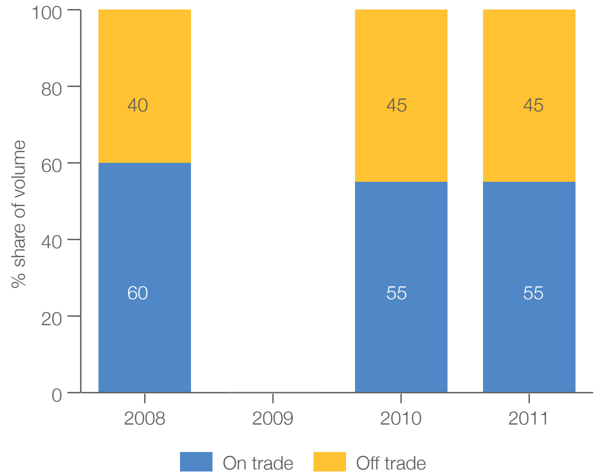
Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

In 2010 there were a total of just over 2,800 enterprises In Luxembourg. Of these, 46% were bars, 41% restaurants and 8% hotels.

Whilst restaurants and bars had a net increase in enterprises between 2008 and 2010, hotels suffered a 5% fall.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011



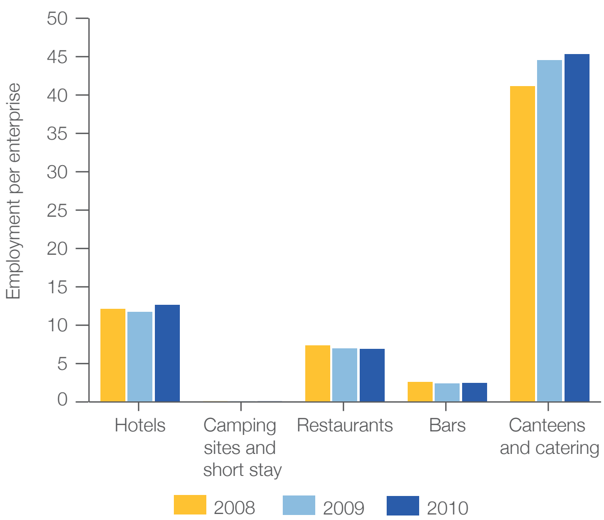
Source: The Brewers of Europe

The majority of beer sold in Luxembourg is in the hospitality sector (at 55% of the total sales in 2011). This proportion has decreased since 2008, but the greater share of on-trade is consistent with the relatively high number of bars in Luxembourg.

Employment in the hospitality sector

Employment in the hospitality sector has followed a relatively volatile growth path since 2000 but peaked in 2010 at over 16,300 employees.

Employment per enterprise, 2008-2010



Source: Eurostat

In Luxembourg, there has been a mixed picture between sub-sectors in terms of changes in employment per enterprise. Employment per enterprise in the hotel sub-sector has increased over the 2008 to 2010 period. However employment per enterprise has decreased over the same period for restaurants and bars.

Enterprise Focus

BARS

Although the bars sub-sector is the third largest out of the total hospitality sector in Luxembourg in terms of revenue, it accounts for the largest number of enterprises. This suggests that there are a large number of relatively small businesses in the sub-sector, with average turnover per enterprise at over €168,000 compared with over €981,000 per enterprise for hotels. The relatively large number of bars could be linked to the preference for purchasing beer from on-trade establishments, as outlined above.

Growth in consumer demand in Luxembourg is expected to pick up in 2013, as consumers recover from the impacts of the global economic downturn. There is an opportunity for bar operators to position themselves well for any increases in demand by developing new product offerings that meet the demands of consumers.

RESTAURANTS

Restaurants represent the largest sub-sector in Luxembourg's hospitality sector in terms of revenue and employment. It accounted for 48% of hospitality sector turnover in 2010, and 49% of sector employment. There has been a positive growth trend in the sub-sector from 2008 to 2010, with turnover growing by 8% over the period.

The shortage of skilled workers has been identified as a potential challenge for the sub-sector going forward, which may place upward pressure on wage costs in the future.

HOTELS

Hotels represent the second largest sub-sector in the sector on a turnover basis, accounting for 19% of total sector turnover, and 18% of employment in 2010. Turnover in the sub-sector has declined slightly between 2008 and 2010, by around 3%.

EU regulations have been identified as a potential challenge for the hotels sub-sector going forward, in terms of the time and capital costs associated with compliance. For example, regulations are recently thought to have increased water charges for hotels in Luxembourg.

The growth in routes offered by Low Cost Carriers is thought to be a potential opportunity for the sub-sector going forward, given the opportunity to target more markets.

Historically, business customers from the financial services sector have been an important source of domestic and overseas demand for the hospitality sector. Operators have identified an opportunity to explore new markets for business customers, such as in research and logistics.

Malta

Malta

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**3.9%**
Hospitality sector annual growth rate, 2000 - 2007 (nominal)	**3.3%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€1.1bn** (18.3% of the total)
GDP	**€0.5bn** (7.9% of the total)
Employment	**33,000** (20.2% of the total)

Total tax contribution of hospitality **€167m**

Excise	**€6m** (4.0% of the total)
VAT	**€90m** (54.0% of the total)
Employment	**€71m** (42.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.92** is spent in the wider economy.

Key Messages

- Tourism accounts for up to 80% of turnover in many hospitality enterprises. This means the hospitality sector is highly dependent on those factors which impact its competitiveness as a tourist destination (including price).
- The increase in the reduced VAT rate on accommodation (from 5% to 7%) in 2010 has been followed by a doubling in the beer excise duty in 2011.
- Whilst the Maltese economy made a relatively strong recovery in 2010, a fall in overall consumption in 2012 reflects the erosion of consumer spending that higher tax rates may lead to.

Summary

Between 2000 and 2010 as a whole, the Maltese economy grew at a nominal average annual growth rate of 3.9%. Despite a strong recovery in 2010 following the economic downturn of 2009, the economy has since stagnated in 2012 as a result of the Eurozone debt crisis. This has led to a recent contraction in personal consumption of 2.8% in the first three quarters of 2012. Overall, the hospitality sector in Malta grew at an average rate of 3.3% per annum between 2000 and 2007 where it peaked at €593m, directly employing over 17,000 people in over 2,200 enterprises.

In 2007, the accommodation sub-sector accounted for approximately 62% of turnover and 52% of employment, but only 9% of enterprises. The restaurant, bar and catering sub-sectors are much smaller in scale than accommodation providers but provide over 91% of the total enterprises, peaking at over 2,000 in 2007.

As a major tourist destination the Maltese hospitality sector is particularly sensitive to prices, which incorporate VAT and excise duty. The standard rate of VAT of 18% is applied to the sector, except for hotels which are subject to a reduced rate of 7%. Beer and spirits are both subject to excise duty in Malta, with the duty applied to beer being doubled in 2011. An eco-contribution tax of €3.50 per tourist has also been introduced which is payable on arrival in Malta.

In 2010 the hospitality sector in Malta contributed turnover of €1.1bn, equal to 18.3% of total output. In terms of value added to GDP, this amounted to approximately €0.5bn, or 7.9% of the total. The hospitality sector in Malta supported around 33,000 people, equivalent to 20.2% of the total workforce.

Economy Overview

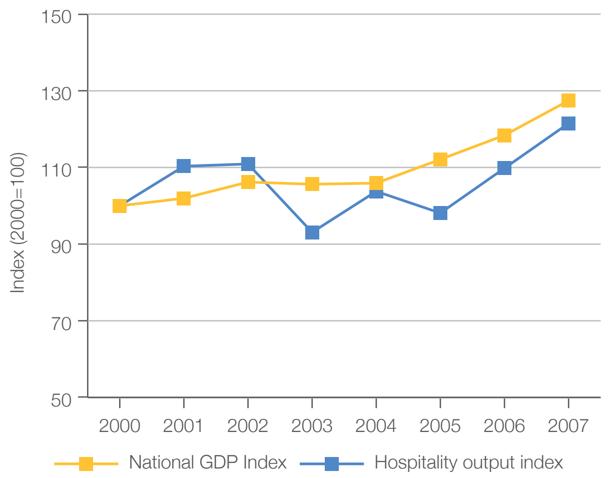
Malta's economy as a whole grew at an average annual rate of 3.9% between 2000 and 2010, demonstrating significant resilience to the global economic downturn, with increases in GDP throughout the 2008 to 2010 period (averaging 4.5% per annum for the three years despite zero growth in 2009).

Reflecting the proportion of total economic activity that the hospitality sector represents in Malta (estimated at nearly 8% of GDP), it is no surprise that its performance has been fairly similar to GDP as a whole, with turnover growing at around 3.3% between 2000 and 2007 (data is not available for 2008 to 2010).

Tourism plays a key role in the performance of the hospitality sector in Malta (accounting for up to 80% of some establishments' incomes). A fall in tourist levels in 2009 is likely to have impacted performance in the sector in the short term; however total numbers did increase in 2010 by 14% to higher than pre 2008 levels.

Despite initial resilience, growth in the economy has since levelled off in 2012 as a result of the Eurozone debt crisis. This has led to a recent contraction in personal consumption of some 2.8% in the first three quarters of 2012.

GDP and hospitality turnover index, 2000 - 2007



Source: Eurostat

National and hospitality employment index, 2000-2007

Source: Eurostat

Between 2000 and 2010 (please note, the graph above presents data to 2007 only as no hospitality level data was readily available from this year onwards), GDP in Malta grew at an average annual growth rate of 3.9%. This compares to an average annual growth rate of 3.3% for the hospitality sector over the 2000 to 2007 period. Please note that data on hospitality revenues in Malta was not readily available post 2007.

In the economy as a whole, GDP accelerated from 2004 onwards, at an annual rate of 6.5% through to 2008, as a result of, amongst other things, growing wealth across Europe and the expansion of the EU.

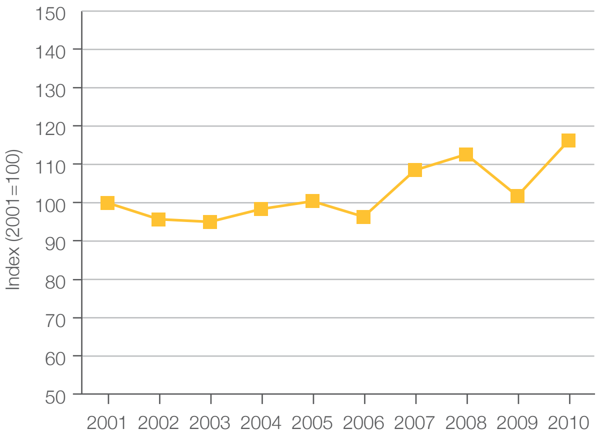
Inflation in Malta over the 2000 to 2010 period has grown at an average rate of 2.7%. Adjusting for inflation, average GDP growth over the period was 1.2%, and growth in the hospitality sector was 0.9%.

Employment in Malta has followed a similar growth path to that of GDP for both the hospitality sector and the economy as a whole. Employment in Malta has experienced year on year growth from 2004 to 2007, showing resilience to the global economic downturn.

Following a significant drop off in employment levels in the hospitality sector in 2003 (just under 1,600 jobs or 9% of the total in one year), employment levels have recovered in line with the wider performance.

Whilst no data is readily available for real household disposable income, levels of personal consumption have recently contracted (a 2.8% decline in the first three quarters of 2012), suggesting that the Euro-crisis and continued modest growth across key visitor markets is starting to impact consumer spending power in Malta.

Tourism index, 2001-2010



Source: Eurostat

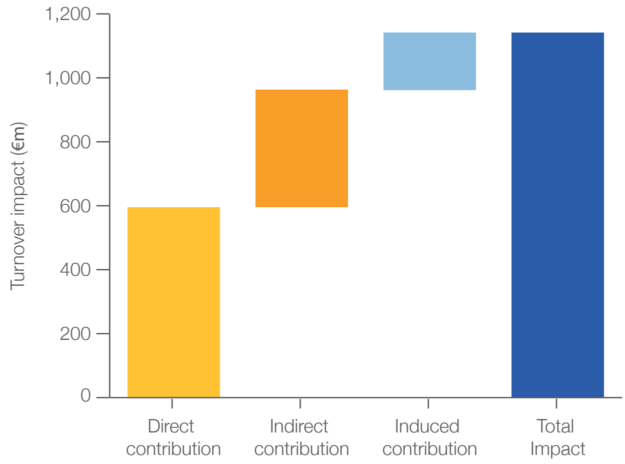
Tourism trends are important to the performance of the hospitality sector, particularly in the north of the island and in eastern coastal areas. Sector representatives suggest that approximately 60 to 80% of the performance of the accommodation sub-sector and 40 to 60% of the performance of the restaurant sub-sector rely on tourism.

The economic downturn of 2009 cut short a period of strong growth in tourism post 2006 but recovered strongly in 2010, with an increase in tourist arrivals of 14% to a peak for the 2001 to 2010 period.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in Malta is estimated to be almost €1.1bn in 2007. Malta's hospitality sector contributed €0.5bn of value added in 2007, equivalent to 7.9% of GDP. In delivering this output the sector supported approximately 33,000 employees. The economic contribution of the hospitality sector in Malta is significantly larger than the European average, with Malta ranking second out of all European countries in terms of contribution to GVA. For every €1 spent by the sector, an additional €0.92 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2007

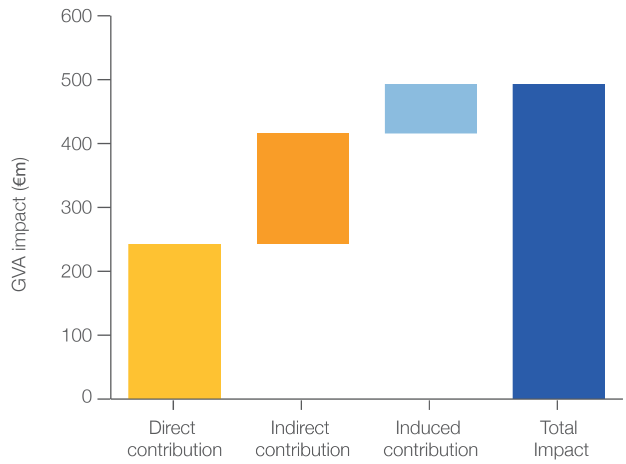


Source: Eurostat, EY calculations

The total turnover supported by the sector was €1.1bn in 2007, which is equivalent to 18.3% of the total. The scale of this impact is significantly larger than the European average, reflecting the sector's crucial role in wider economic prosperity in Malta.

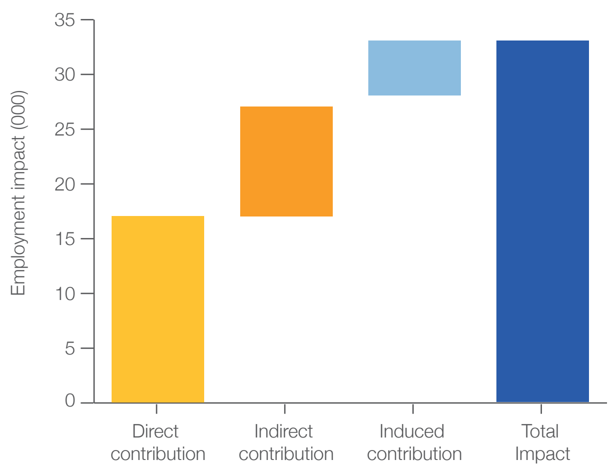
Malta's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.62, meaning that for every €1 spent by the hospitality sector an additional €0.62 of demand is generated in its supply chain.

GDP impact of hospitality sector, 2007



The total value added of Malta's hospitality sector was €0.5bn in 2007, including the direct, indirect and induced contribution. This is equivalent to 7.9% of GDP. The scale of this impact is significantly larger than the European average, with Malta ranking second out of all European countries on this measure.

Employment impact of the hospitality sector, 2007



Source: Eurostat, EY calculations

In 2007, Malta's hospitality sector directly employed over 17,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to Maltese employment is an estimated 33,000 jobs. This is equivalent to over 20% of total employment in Malta.

Malta is ranked second in Europe in terms of the hospitality sector's contribution to employment.

Regulation / Taxation

Malta's hospitality sector is currently subject to a standard rate of VAT of 18% and a reduced rate of 7% which applies to accommodation and was increased from 5% in 2010. The excise duty applied to beer was doubled to €1.50 at the start of 2011. Duty applied to spirits has changed several times and is currently at €1,400 / hl pure alcohol. Wine is zero rated in Malta.

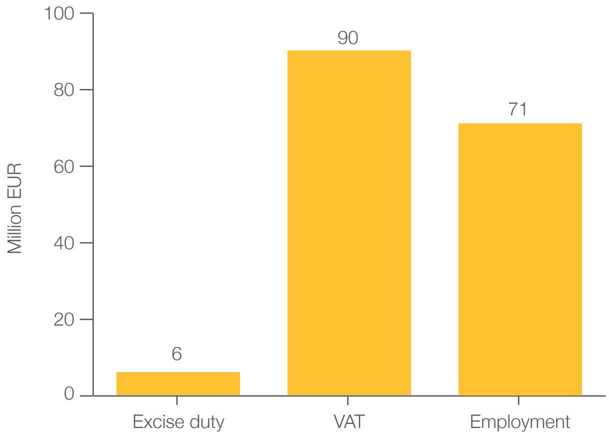
An eco contribution tax of €3.50 per tourist has been introduced which is payable on arrival in Malta. This measure replaces the proposed tourist tax of 50c per tourist per night which has not been implemented.

Tax Receipts

The Maltese hospitality sector is estimated to have contributed €167m to the Exchequer in 2007 from excise duty, VAT and employment related contributions.

Of this, €6m was raised in excise duties arising from the sales of alcoholic beverages in the hospitality sector. The government in Malta has also collected €90m in revenue from gross VAT receipts (VAT deductions are not accounted for) in the sector.

Tax receipts by type, 2007



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions.

Added together, these were estimated to total €71m in revenue for the Exchequer in 2010.

Excise Duty

The excise duty applied to beer was doubled to €1.50 at the start of 2011. Duty applied to spirits has changed several times and is currently at €1,400 / hl pure alcohol. Wine is zero rated in Malta.

A large rise in beer duty has a big impact upon the bar and café sub-sectors which sell a higher proportion of beer than wine or spirits.

VAT and Reduced rates

In Malta, the standard rate of VAT is currently 18%, which has been in force since 2004. A reduced VAT rate of 7% has been applied to hotels since 2010, when the reduced rate was increased from 5%.

Other taxes

A tourist tax of 50c per tourist, per night was proposed in 2008 but never implemented. However, in 2010 an eco contribution tax of €3.50 per tourist was introduced (this is equal to a 50c per person, per night charge for a seven night stay). This is payable on arrival in Malta.

A permit is also required for hospitality establishments to place tables and chairs on public land.

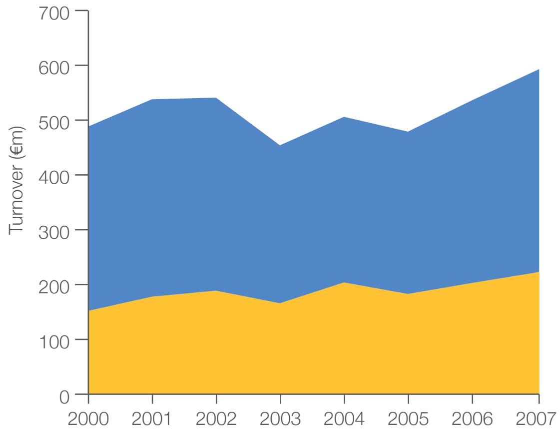
Hospitality sector in focus

Overall, the hospitality sector in Malta grew at an average rate of 3.3% per annum between 2000 and 2007. It is heavily dependent upon the tourism numbers and spending, accounting for up to 80% of turnover in some establishments. In 2007 sector turnover peaked at €593m, directly employing over 17,000 people in over 2,200 enterprises.

The accommodation sub-sector accounted for approximately 62% of turnover and 52% of employment, but only 9% of enterprises. The restaurant, bar and catering sub-sectors are much smaller in scale than accommodation providers but provide over 91% of the total enterprises, peaking at over 2,000 in 2007. The relatively high reliance on tourists for hospitality expenditure helps to support a higher than average rate of on-trade beer sales (64% in 2011). Unlike other European countries, there has been no downward trend in this proportion in recent years.

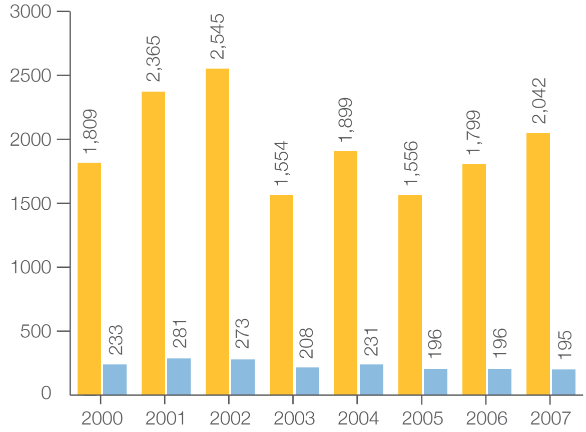
Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2007



Source: Eurostat

Number of enterprises by type, 2000-2007



Source: Eurostat

Growth in turnover in the hospitality sector in Malta has been relatively volatile in the middle years of the 2000 to 2007 period. The fall in 2003 was particularly steep, with turnover decreasing by 16% and almost 1,600 jobs lost. The recovery really began in 2006 and 2007, to finish the period with turnover above that of the 2002 peak, at €593m.

The accommodation sub-sector is relatively large as a proportion of the total turnover, compared to other European countries. In 2007, the accommodation sub-sector's share of total sector turnover was around 62%. This largely reflects the large number of resort type accommodation, serving a primarily tourist market.

Whilst representing only 38% of turnover, the restaurant, bar and catering sub-sectors account for over 91% of enterprises and 48% of employment.

Please note that a detailed sub-sectoral breakdown of revenue, enterprise numbers and employment data was not readily available for Malta in recent years.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011

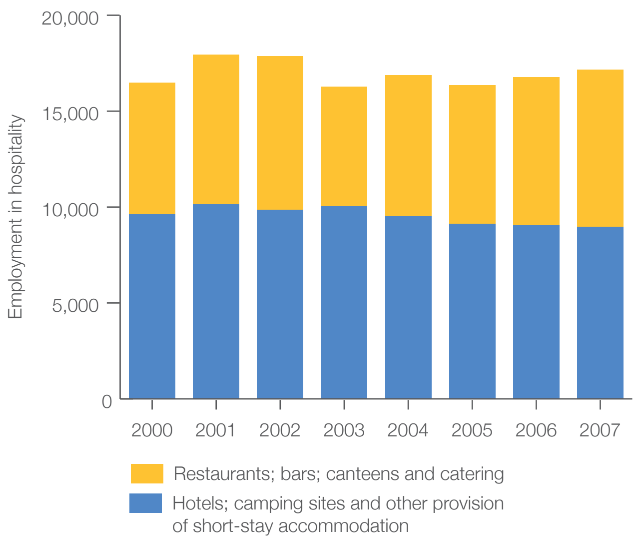
Source: The Brewers of Europe

In Malta, unlike the majority of Europe, the proportion of beer sold in the on-trade has increased between 2008 and 2011, with the majority of beer being purchased from on-trade establishments (64%).

Employment in the hospitality sector

Employment in the hospitality sector peaked in 2001 at almost 18,000 employees, before a significant fall in 2003 and a consistent recovery through to a peak of nearly 17,200 in 2007.

Employment in the hospitality sector, 2000-2007



Source: Eurostat

Enterprise Focus

RESTAURANTS AND BARS

Although the Maltese economy proved to be relatively resilient to the global economic downturn, growth stagnated in 2012 as a result of the Eurozone crisis, leading to decreases in consumer demand across the economy. This is likely to have negatively affected domestic demand for food and beverages in the hospitality sector.

Although there is limited recent data on turnover or enterprise numbers in the bars sub-sector in Malta, the majority of beer is purchased from on-trade establishments and unlike other European countries, there has been no downward trend in this proportion in recent years. This suggests that demand for bars in the country has been maintained in recent years.

There have been some regulatory changes which may have placed pressures on costs within restaurants and bars, as well as the broader hospitality sector. For example, proportional equal employment conditions have been introduced for part-time workers. A requirement for 13 week obligatory paid maternity leave has also been introduced, whilst a shortage of skilled workers is another key challenge for the sub-sector in Malta.

Together these have placed some pressure on wage costs in the sub-sector. Ongoing rises in energy and other operating costs compound this, squeezing sub-sector profitability.

Maintaining revenues during the winter months is an ongoing challenge for Maltese bar operators, as tourist numbers decline over the season.

HOTELS

The accommodation sub-sector is the largest in the hospitality sector, accounting for 62% of total sector turnover in 2007. This underlines the importance of tourism for the hospitality sector and the broader economy in Malta.

As previously noted, growth in tourism has been relatively volatile over the 2001 to 2010 period as a whole; however there was a strong growth in tourist numbers in 2010 (14% from 2009 levels).

There are several factors which may have acted to influence tourist trends in recent years. For example, the introduction of low cost carriers has created the opportunity for the Maltese hotels sub-sector to target new markets. This is particularly important at a time of economic uncertainty throughout the Eurozone, where customers are increasingly price sensitive and therefore likely to search out cheaper airfares.

The downside to the opportunities created by lower cost travel and an enlarged EU is the increased competition in the tourism market from the eastern European EU member states.

The increase in VAT applicable to hotels is also likely to have had a negative impact. However, sub-sector data which captures this change is not yet available.

The growth of online booking sites presents an ongoing challenge for the hotels sub-sector. The sites continue to drive increased price competition in the market, and require operators to make significant changes to their business models in terms of their approach to sales and marketing.

Hotel operators must also respond to changes in consumer preferences in Malta, such as a sharp decrease in half board bookings and an increase in bed and breakfast stays. Operators will need to develop new approaches to compensate for lost food and beverage revenues.

Netherlands

Netherlands

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**3.5%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**2.2%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€37.5bn** (6.4% of the total)
GDP	**€17.0bn** (2.9% of the total)
Employment	**541,000** (6.6% of the total)

Total tax contribution of hospitality	**€4.9bn**
Excise	**€0.09bn** (2.0% of the total)
VAT	**€2.8bn** (57.0% of the total)
Employment	**€2.0bn** (41.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.14** is spent in the wider economy.

Key Messages

- The Netherlands has a mature hospitality sector which grew at an average rate of 2.2% per annum between 2000 and 2010.
- The sector became an increasingly important employer throughout the period, creating an additional 25% more jobs between 2005 and 2010 alone.
- Regular increases in excise duties may pose a risk to the future competitiveness of the sector, with the proportion of beer sold in the on-trade already declining. The presence of tourism taxes, and increase in VAT in 2011, have all further reduced the affordability of the sector to consumers.

Summary

From 2000 to 2010, nominal GDP in the Netherlands grew at an average rate of 3.5%. Over the same period, the hospitality sector grew at an average rate of 2.2%. As with most of Europe, the economic downturn in 2009 resulted in a contraction in Dutch GDP as a whole, with a modest recovery in 2010.

Employment in the Netherlands has remained broadly stable over the 2000 to 2010 period, with the hospitality sector becoming an increasingly important employer in the country, with total employment growing by over 5% per annum between 2005 and 2010, against a national trend of 0.5% per annum. Consumer demand is expected to remain under pressure going forward as unemployment increases, wages decline and as the recent VAT increase continues to bite.

The Dutch hospitality sector is currently subject to a standard rate of VAT of 21%, increased from 19% in 2012 and a reduced rate of 6% which applies to accommodation and food and non-alcoholic beverages served in the hospitality sector. Alcoholic beverages are also subject to excise duty, which has increased in recent years and is expected to increase further in 2014. A tourism tax is also enforced in the Netherlands which is administered at a municipal level and ranges up to almost €5 per night.

Hospitality sector turnover peaked in 2009 at €18.6bn, but contracted by 6% to €17.5bn in 2010. The restaurant sub-sector is the largest sub-sector in the Dutch hospitality sector, accounting for 41% of total sector turnover and 51% of total employment in 2010. Hotels account for 28% of turnover (€4.9bn) and bars account for a further 17% (€2.9bn).

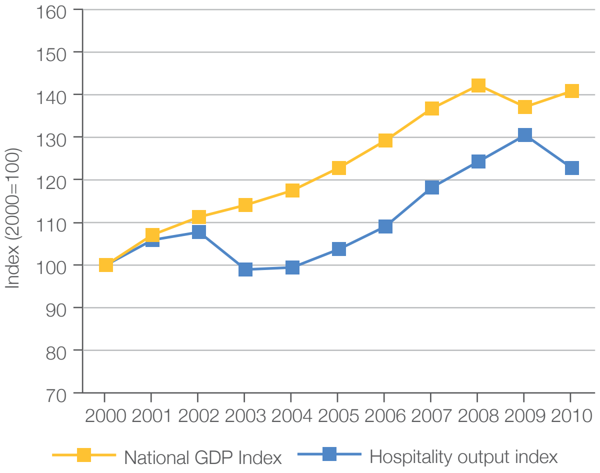
Economy Overview

From 2000 to 2010, nominal GDP in the Netherlands grew at an average rate of 3.5%. Over the same period, the hospitality sector grew at an average rate of 2.2%. As with most of Europe, the economic downturn in 2009 resulted in a contraction in Dutch GDP as a whole, with a modest recovery in 2010. The performance of the hospitality sector dropped off significantly against GDP in 2003 but recovered to a similar growth path through to 2008. Whilst the economy as a whole recovered in 2010, the hospitality sector suffered its first decline in turnover since 2003.

Employment in the Netherlands has remained broadly stable over the 2000 to 2010 period, with the hospitality sector becoming an increasingly important employer in the country, with total employment growing by over 5% per annum between 2005 and 2010, against a national trend of 0.5% per annum.

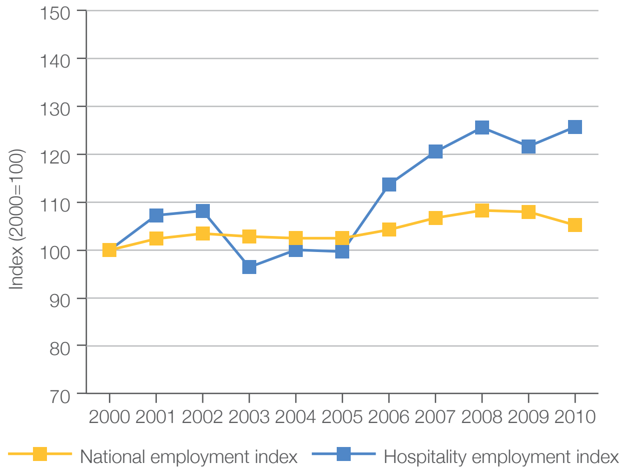
Going forward, the Dutch economy will continue to face challenges to growth coming from the Euro-crisis and wider instability. Domestic policies aimed at reducing budget deficits may also continue to dampen disposable incomes and consumer spending in the short term.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

Over the 2000 to 2010 period, GDP in the Netherlands grew at an average annual growth rate of 3.5%.

The hospitality sector in the Netherlands has grown more slowly than the economy as a whole, at an average annual growth rate of 2.2% over the 2000 to 2010 period. Turnover in the hospitality sector fell sharply in 2003, before recovering towards a peak in activity in 2009. In contrast to the recovery in the broader economy, turnover in the hospitality sector fell in 2010.

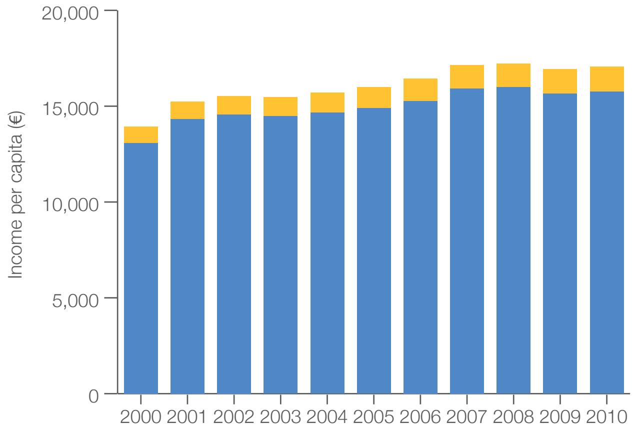
Inflation in the Netherlands over the 2000 to 2010 period has grown at an average annual growth rate of 2.2%. Adjusting for inflation, average GDP growth over the period was 1.3%, and growth in the hospitality sector was 0%, primarily reflecting the 2002 to 2003 period.

Employment in the Netherland's remained broadly stable between 2000 and 2005 before a steady upturn, which was ultimately curtailed by the financial crisis in 2008.

Employment in the hospitality sector has been significantly more volatile than that in the broader economy, demonstrating its sensitivity to wider demand conditions and operating environments.

In line with turnover trends, employment decreased sharply in 2003, before experiencing strong growth between 2005 and 2008. Importantly for wider economic prosperity, the hospitality sector has continued to create jobs in 2010, despite a downturn in turnover.

Real Net and Gross disposable income per capita EUR, 2000-2010

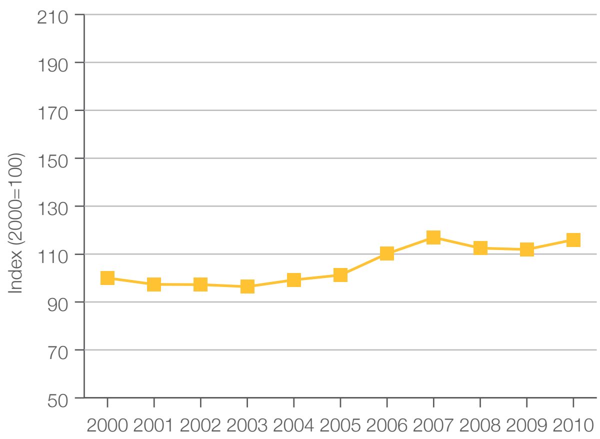


Source: Eurostat

Real net disposable income in the Netherlands grew consistently to 2008, reaching a peak of around €17,200 before falling by 1.5% in 2009.

These changes in the purchasing power of consumers may go some way to explain the changes in demand in the hospitality sector over this period. Private consumption has remained under pressure in the Netherlands in the years since 2010, due to declining employment and stagnant incomes.

Tourism index, 2000-2010



Source: Eurostat

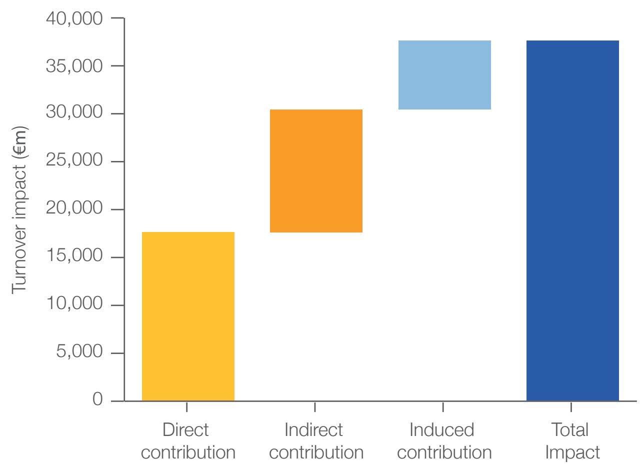
Growth in tourism in the Netherlands has been relatively modest over the 2000 to 2010 period. Tourism peaked in 2007 following a period of growth from 2003 onwards, supported by expansion of low cost airlines flying into Amsterdam and general broadening of tourist arrival markets.

Since 2007, tourist numbers declined before recovering in 2010. Tourism is a particularly important contributor to the hospitality sector in the North Holland and Zeeland provinces.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in the Netherlands is estimated to be €37.5bn in 2010. The Netherlands' hospitality sector also contributed €17.0bn of value added to GDP, 2.9% of the total. Delivering this output supports approximately 541,000 employees in total, including direct, indirect and induced impacts. For every €1 spent by the sector, an additional €1.14 is spent in the supply chain (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

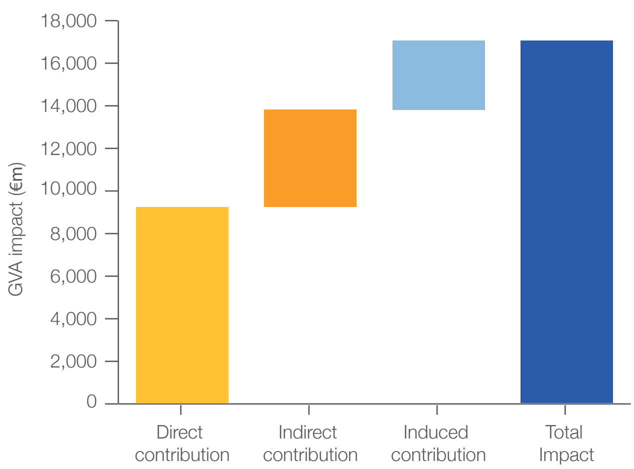


Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector was €37.5bn in 2010, which is equivalent to 6.4% of output.

The Netherland's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') for the hospitality sector is 1.73, meaning that for every €1 spent by the hospitality sector an additional €0.73 of demand is generated in its supply chain.

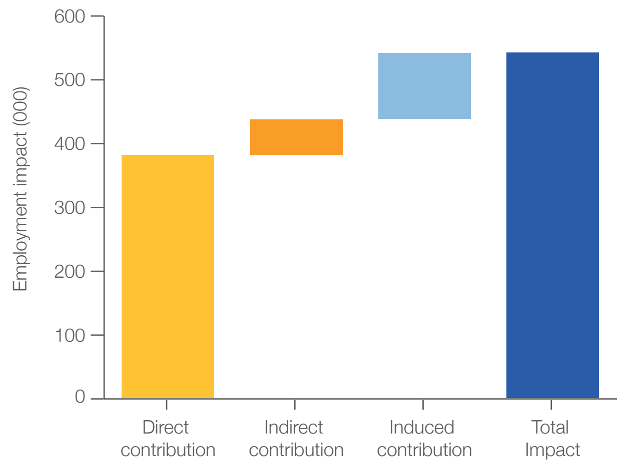
GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

The total value added of the Dutch hospitality sector is €17.0bn, including direct, indirect and induced impacts. This is equivalent to 2.9% of GDP. The scale of this impact is slightly lower than the European average.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

In 2010, the Dutch hospitality sector directly employed 381,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to employment in the Netherlands is an estimated 541,000 jobs.

This is equivalent to approximately 6.6% of total employment in the Netherlands.

Regulation / Taxation

The Dutch hospitality sector is currently subject to a standard rate of VAT of 21% (equal to the European average) and a reduced rate of 6% which applies to accommodation and food and non-alcoholic beverages served in the sector. The standard VAT rate has increased from its previous level of 19% in October 2012.

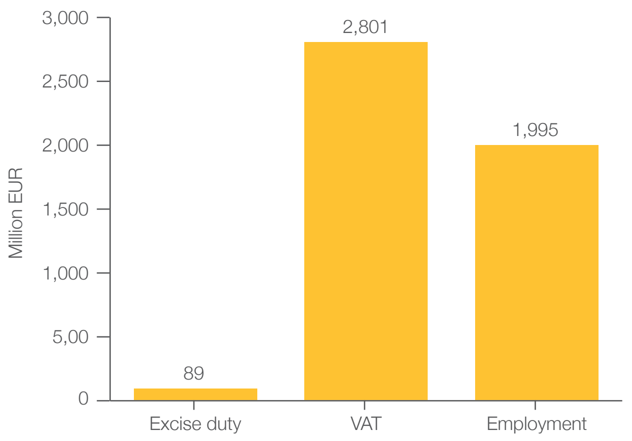
Alcoholic beverages are also subject to excise duty, from which the Dutch exchequer received €89m in revenue in 2010. Excise duty has increased in recent years for beer, wine and spirits, with further increases expected in 2014. A tourism tax is also enforced in the Netherlands and varies between municipalities (ranging up to almost €5 per night).

Tax Receipts

The hospitality sector in the Netherlands is estimated to have contributed almost €4.9bn to tax revenues in 2010, from excise duty, VAT and employment related taxes alone. Of this, €89m was collected through excise duty arising from the sale of alcoholic beverages in the hospitality sector.

The Dutch government also collected over €2.8bn in revenue from gross VAT receipts from operators (VAT deductions are not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Tax receipts related to employment in the sector totalled almost €2bn in 2010. This includes income taxes and social security contributions from both employees and employers.

Excise Duty

Excise duty applied to alcohol has increased a number of times since 2008. The most recent change was at the start of 2013 when the duty for beer[1] was increased by 10% to €35.9/hl and still wine duty rose to €83.56/hl. At the same time, excise duty applied to spirits was increased by 6% to 1,594/hl pure alcohol. There is a further rise of beer excise duties of 14% planned for January 2014.

VAT and Reduced rates

The standard rate of VAT in the Netherlands is currently 21%. The standard rate of VAT was increased from 19% in October 2012.

A reduced rate of 6% is applied to hotels and food and non-alcoholic beverages served in restaurants, bars and cafés.

Other taxes

A tourist accommodation tax applies in the Netherlands. A levy per person per night is charged in almost all of the 421 municipalities in the country. The majority of municipalities charge a set amount by hotel grade or accommodation type. However a smaller number of municipalities charge a percentage on hotel charges, also sometimes variable by hotel grade or accommodation type. The tax ranges from €0.55 to €4.76 per person per night.

1 Of 12° Plato

Hospitality sector in focus

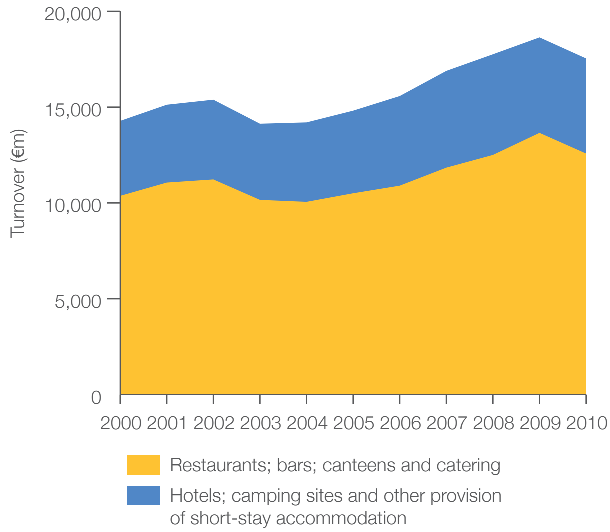
Overall, the hospitality sector in the Netherlands has grown at an average rate of 2.2% per annum. Over the period, turnover peaked in 2009, at €18.6bn, with the sector proving resilient in the short term to the economic downturn in the wider Dutch economy. However, as the sector felt the effects of declining household incomes, turnover then contracted by 6% to €17.5bn in 2010. The effect on turnover is not reflected in the number of enterprises and employees in the sector, which rose by 15% and 3% respectively from 2009 levels.

The restaurant sub-sector is the largest sub-sector in the Dutch hospitality sector, accounting for 41% of total sector turnover and 51% of total employment in 2010. Hotels account for 28% of turnover (€4.96bn) and bars account for a further 17% (€2.9bn). The total number of enterprises peaked in 2010 at over 44,300, with the majority of this growth coming in the restaurant and bar sub-sectors.

Although the bars sub-sector has performed relatively well in recent years, with growing turnover between 2008 and 2010, there is a growing trend towards purchasing beer from off-trade establishments, which accounted for 74% of all beer sales in 2011, compared to 72% in 2008. This change in consumer purchasing patterns, together with the recent VAT rise and excise duty rise on alcoholic beverages, may lead to suppressed demand for the bars sub-sector in the future.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010



Source: Eurostat

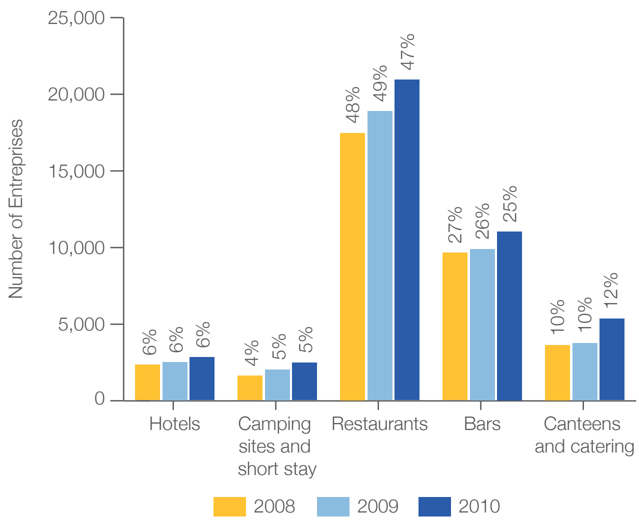
Over the period 2000-2010, turnover peaked in 2009, with the sector proving resilient in the short term to the economic downturn in the wider Dutch economy. However, turnover in the sector declined in 2010. This can be linked to falling real net disposable incomes as a result of the economic crisis, leading to suppressed demand amongst domestic customers, despite some increase in tourism in the same year.

It is possible that the recent standard rate VAT increase may continue to place pressure on operators, who through a combination of increasing competition (enterprise numbers are rising) and falling average turnover, are already facing a challenging environment. Any increase in the reduced rate currently applied in the Netherlands could further erode operators' ability to attract greater custom.

The food and beverage sub-sector generates the majority of turnover in the sector, contributing over 71% of hospitality sector turnover in 2010.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

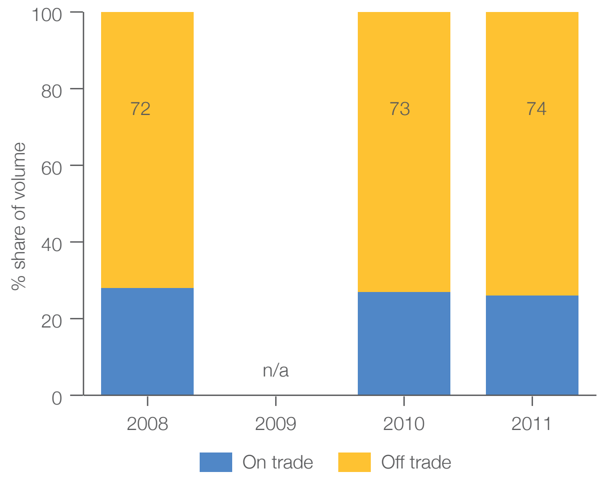
According to Eurostat data[1], the number of enterprises in the Netherlands' hospitality sector has increased over the 2008 and 2010 period for all sub-sectors, reaching a total of over 44,300.

Restaurants make up the largest proportion of establishments, representing 47% in 2010, with bars accounting for 25% and hotels for 6%.

1 Dutch national statistics suggest that total number of establishments rose, but by a lesser amount than presented here. This may be an issue of classification, including the difference between an establishment and an enterprise (as used in this analysis). For consistency the Eurostat data has been quoted.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011



Source: The Brewers of Europe

The majority of beer is purchased from off-trade establishments in the Netherlands (74% in 2011). This proportion has increased by 2 percentage points since 2008, when off-trade establishments captured 72% of sales. The introduction of the smoking ban, increases in VAT and wider pressures on incomes may have contributed to this trend.

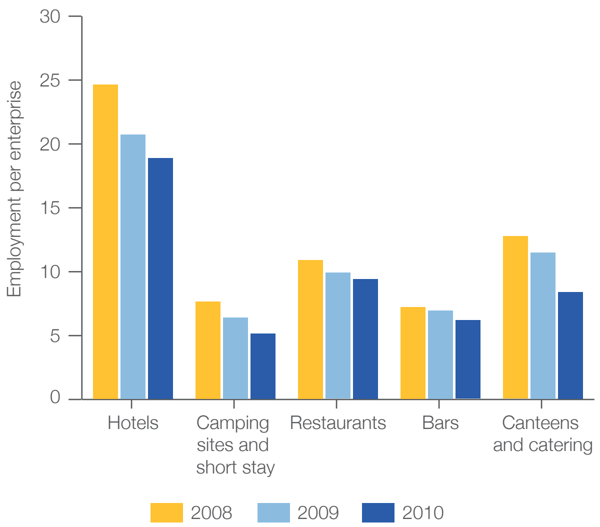
Where consumption is shifted from the on-trade to the off-trade a range of economic and employment benefits are foregone.

Employment in the hospitality sector

Growth in employment in the hospitality sector has been relatively variable over the 2000 to 2010 period. Despite a fall in 2009, employment peaked for the whole period in 2010, at over 381,000 direct employees.

The increase in employment largely reflects the growth in enterprise numbers rather than sector turnover performance.

Employment per enterprise, 2008-2010



Source: Eurostat

Employment per enterprise declined in every sub-sector of the Dutch hospitality sector over the 2008 to 2010 period, suggesting that although the number of enterprises in the sector has increased, enterprise sizes have contracted, or are running with lower levels of labour inputs.

Enterprise Focus

BARS

Bars represent the second largest sub-sector in the hospitality sector in the Netherlands in terms of enterprise numbers, accounting for 25% of all enterprises in 2010. The sub-sector appears to be dominated by a large number of relatively small enterprises, and so ranks third in terms of employment and turnover.

Bars represented 17% of total sector revenue in 2010 (€2.9bn), and 18% of total employment (67,400). The bars sub-sector has grown in recent years, with revenue increasing by 3% between 2008 and 2010.

Despite the increase in turnover, drinking patterns have changed to result in a smaller share of beer being purchased from on-trade establishments. The recent increase in the standard VAT rate which applies to alcoholic beverages and the increases of excise duties may have a negative impact on demand in bars in the future, challenging the build up in capacity in 2010.

RESTAURANTS

The restaurant sub-sector is the largest sub-sector in the Dutch hospitality sector, accounting for 41% of total sector turnover and 51% of total employment in 2010. Performance in the restaurant sub-sector has been muted in recent years, with turnover contracting by 1% between 2008 and 2010.

HOTELS

Hotels represent the second largest sub-sector in the Dutch hospitality sector, accounting for 28% of total sector turnover (€4.9bn) and 14% of employment (195,000) in 2010. Turnover in the hotel sub-sector has declined in recent years, by approximately 6% between 2008 and 2010.

Norway

Norway

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**6.0%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**4.6%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€15.0bn** (4.7% of the total)
GDP	**€6.8bn** (2.1% of the total)
Employment	**129,000** (6.4% of the total)

Total tax contribution of hospitality **€5.1bn**

Excise	**€2.8bn** (55.0% of the total)
VAT	**€1.4bn** (28.0% of the total)
Employment	**€0.8bn** (17.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.11** is spent in the wider economy.

Key Messages

- Norway has one of the highest tax regimes in Europe but also one of the highest levels of disposable income. Despite a recession in 2009, the current economic outlook is strong.
- Restaurants account for 46% of the total sector turnover and over 50% of employees. The sub-sector grew by 7% between 2008 and 2010, supported by a growing interest in gastronomy.
- The relatively high excise duties in Norway contribute to a relatively small bar sector and associated low levels (as a proportion of volume) of on-trade beer sales.

Summary

Norway had one of the fastest-growing economies in Europe during the period 2000 to 2010, with average GDP growth of 6% per annum over the decade. Notwithstanding a fall in GDP in 2009 due to the effects of the global economic downturn, Norway returned again to strong growth in 2010. The GDP performance of the wider economy was largely mirrored by growth within the hospitality sector, albeit at slightly below the national trend, with output growth of 4.6% per annum over the period.

From 2000 to 2010, the food and beverage enterprises accounted for approximately 60% of growth in the hospitality sector. Restaurants and hotels are the largest sub-sectors of the hospitality sector in Norway, while the bar sub-sector is one of the smallest in Europe with approximately 500 enterprises operating in 2008. On top of this, the off-trade is relatively large in Norway, reflecting some of the highest excise duties in Europe. In 2004, the Norwegian government introduced a smoking ban in all public areas providing an additional regulatory constraint to demand in the already highly taxed sector.

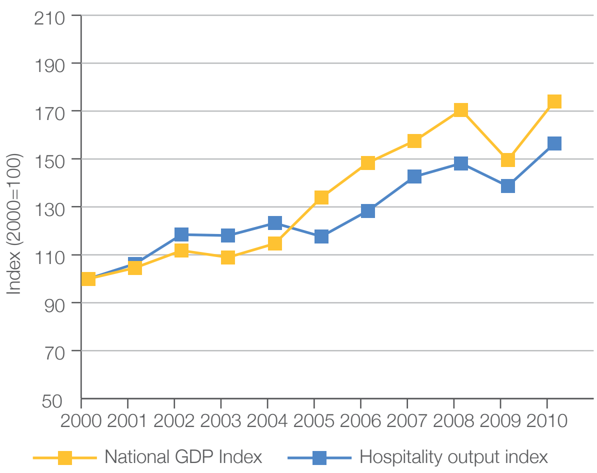
The Norwegian hospitality sector is currently subject to the standard rate of VAT (25%) and a reduced rate of 8% applies to hotels. Alcoholic beverages are also subject to high excise taxes. No tourism or terrace taxes are currently levied in Norway, though it was one of the first countries in the world to introduce a chocolate and sweets tax in 1922. This was originally intended to raise revenues rather than reduce consumption. A tax on sugar (beet and cane), syrup and sugar solutions has been applied since 1981.

The outlook for the Norwegian economy as a whole remains strong and business confidence is high. The economy has an embedded high-wage, high tax structure, and while excise duties and VAT are high, they remain stable relative to incomes.

Economy Overview

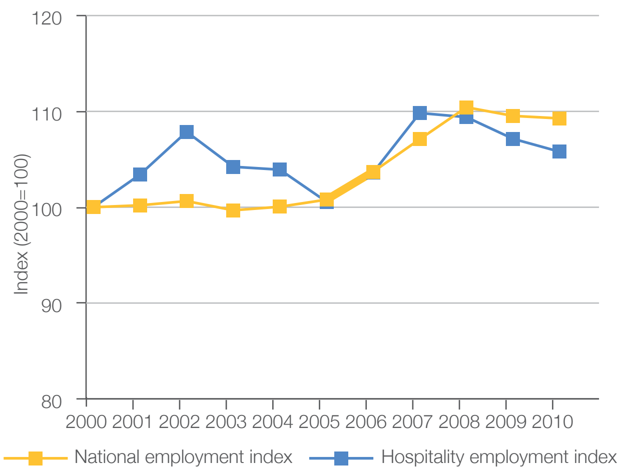
Between 2000 and 2010, the Norwegian economy grew at an average annual rate of 6.0%, making it one of the fastest-growing economies in Europe. Growth in the hospitality sector has also been strong with an average annual growth rate of 4.6% over the period, in particular following EU expansion in 2004 with large year on year growth between 2005 and 2008. Despite rapid growth in GDP, employment performance was essentially flat until a period of growth in 2005, before reaching a peak in 2008. Employment in the hospitality sector has been more volatile than in the economy as a whole, with peaks in 2002 and 2007 and a trough in 2005. Both net disposable income and tourism have seen steady growth over the period.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

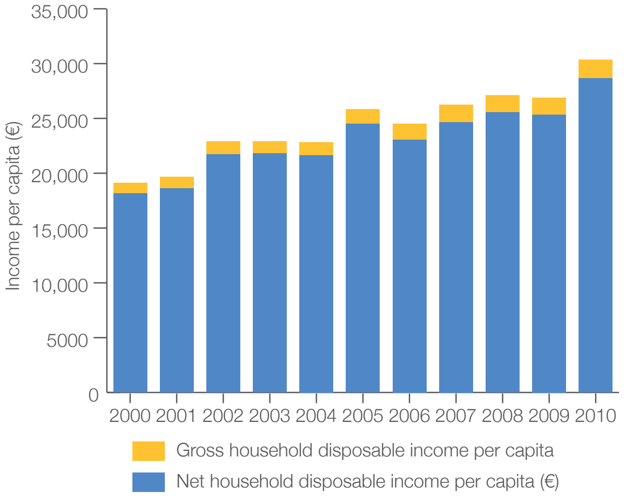
Between 2000 and 2010 Norway's nominal GDP has grown at an average annual rate of 6.0% compared to 4.6% for the hospitality sector. At the beginning of this period growth was relatively flat for both nominal GDP and hospitality, but GDP began to grow at a faster rate after 2004 towards a peak in 2008 and brief recession in 2009.

A return to growth of around 13% in 2010 for the hospitality sector reflected an upturn in the wider economy and provided a strong end to the period.

Inflation in Norway over the 2000 to 2010 period has grown at an average annual growth rate of 2.2%. Adjusting for inflation, average GDP growth over the period was 3.8%, and growth in the hospitality sector was 2.6%.

Norway's employment figures remained flat between 2000 and 2005, before increasing at a relatively fast rate towards a peak in 2008. After the economic crisis in 2008, employment stagnated and flattened out through to 2010. Hospitality employment has had a less stable growth path over this period, peaking in 2007 at over 88,500, but experiencing a sustained fall in subsequent years, finishing the period at around 85,200, a loss of 3,300 jobs.

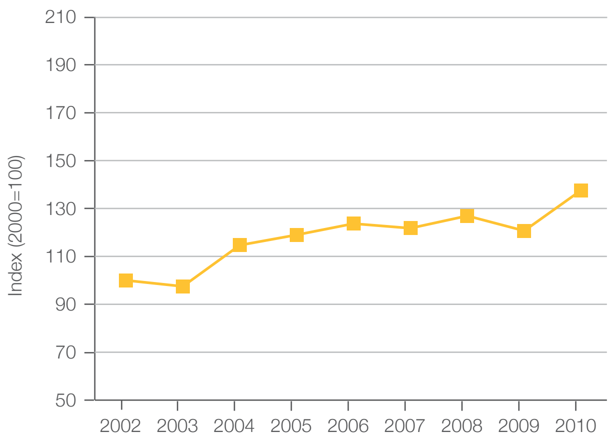
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Over the period real net disposable incomes grew at a steady rate with a slight decline in 2006, but an overall upward trend. Growth in incomes was close to zero in 2009, which may have had an impact on consumer demand. However income growth recovered strongly over 2010, seen alongside an increase in turnover in the hospitality sector in that year. At over €30,000 in 2010, gross disposable income in Norway is one of the highest in Europe.

Tourism index, 2002-2010



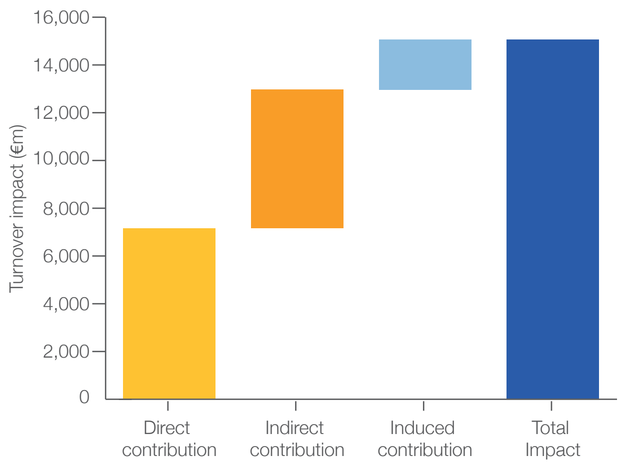
Source: Eurostat

Norway has experienced a steady growth rate of tourism between 2002 and 2010, with small dips in 2003 and 2009 respectively, and strong growth to 2010.

Economic Contribution of the hospitality sector

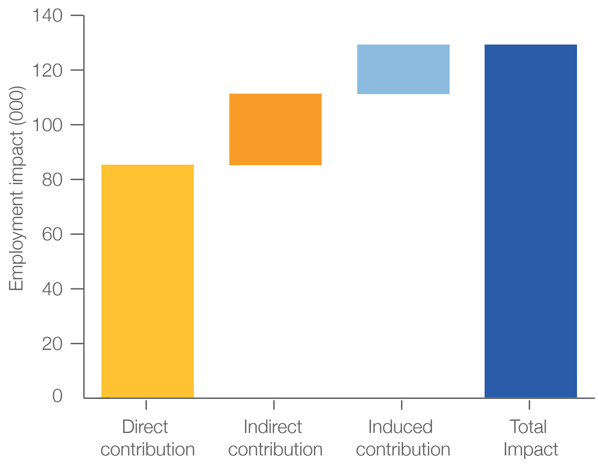
The total turnover supported by the hospitality sector in Norway is estimated to be €15.0bn. Norway's hospitality sector contributes €6.8bn to GDP and supports approximately 129,000 employees in total, including direct, indirect and induced impacts. The economic contribution of the hospitality sector in Norway is relatively low compared with the European average. For every €1 spent by the sector, an additional €1.11 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

Employment impact of the hospitality sector, 2010



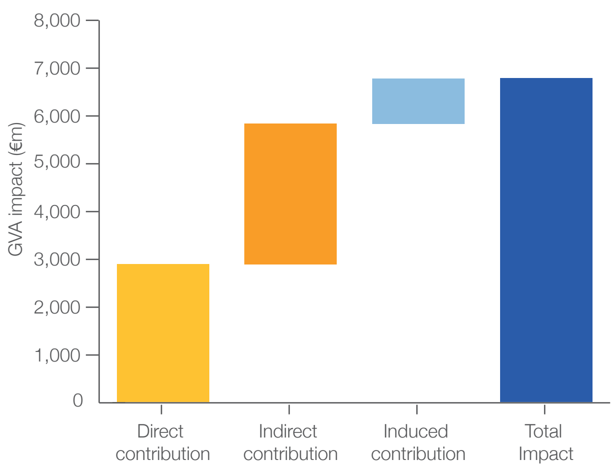
Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector was €15bn in 2010, equivalent to 4.7% of total output.

Norway's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.82, so for every €1 spent by the sector, an additional €0.82 is spent in the supply chain. This is high compared to the European average, suggesting that the hospitality sector uses a relatively high proportion of domestic inputs compared to other European countries.

In 2010, the Norwegian hospitality sector directly employed around 85,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to Norwegian employment is an estimated 129,000 jobs. This is equivalent to 6.4% of total Norwegian employment.

GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

The total value added of the Norwegian hospitality sector was approximately €6.8bn, or 2.1% of GDP in 2010. As with output, Norway has a relatively high indirect GVA multiplier, indicating that much of the value added within the hospitality sector's supply chain takes place within Norway.

Regulation / Taxation

The Norwegian hospitality sector is currently subject to the standard rate of VAT (25%) and a reduced rate of 8% applies to hotels. Alcoholic beverages are also subject to excise taxes, which are some of the highest in Europe.

No tourism or terrace taxes exist in Norway at the present time. Norway was one of the first countries in the world to introduce a chocolate and sweets tax in 1922, originally to raise revenues rather than to reduce consumption. Recent proposals to change this tax to a general tax on sugar in food and beverages were dismissed because there were no good health arguments for a tax based on total sugar content as natural sugars exist in healthy foods. A sugar tax on sugar (beet and cane), syrup and sugar solutions has been applied since 1981.

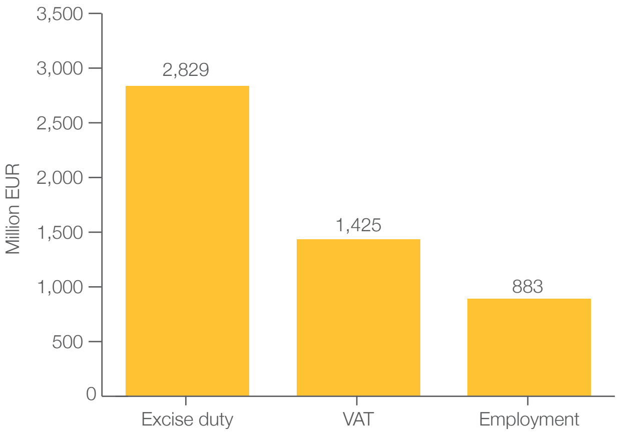
Tax Receipts

The Norwegian hospitality sector is estimated to have contributed €5.1bn to the Exchequer in 2010 from excise duty, VAT and income tax and social security contributions.

Of this, €2.8bn was raised in excise duties arising from the sales of alcoholic beverages in the hospitality sector.

The Norwegian government has also collected an estimated €1.4bn in revenue from gross VAT receipts from the sector in 2010 (VAT deductions have not been accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, these totaled €883m in revenue for the Exchequer in 2010.

Excise Duty

Duty on both beer and wine in Norway is NOK 446 per % abv / hl. Duty on spirits is NOK 685 per % abv / hl.

VAT and Reduced rates

In Norway the standard rate of VAT has remained at 25% between 2000 and 2010.

In 2006, a reduced VAT rate of 8% was applied to hotels which had previously been exempt from VAT, as a means of raising government revenue.

Other taxes

In 1922, a tax on chocolate and sweets was introduced in Norway. The primary reason for its introduction was fiscal, but the tax now has health grounds. The tax rate in 2012 was NOK 18.21 per kg of chargeable weight and includes products such as confectionery, sweet biscuits, chocolate and cookies.

The special tax committee proposed the tax on chocolate and sweets be replaced with a general tax on sugar in food and beverages, but this proposal was dismissed because there were no good health arguments for a tax based on total sugar content according to the Directorate of Health due to the natural sugars found in some healthy foods. Other proposals were also dismissed due to significant administrative and control issues.

In addition to a tax on chocolate and sweets, Norway has a sugar tax which applies to sugar (beet and cane), syrup and sugar solutions. In 2012 the tax on sugar was NOK 7.05 per kg.

Hospitality sector in focus

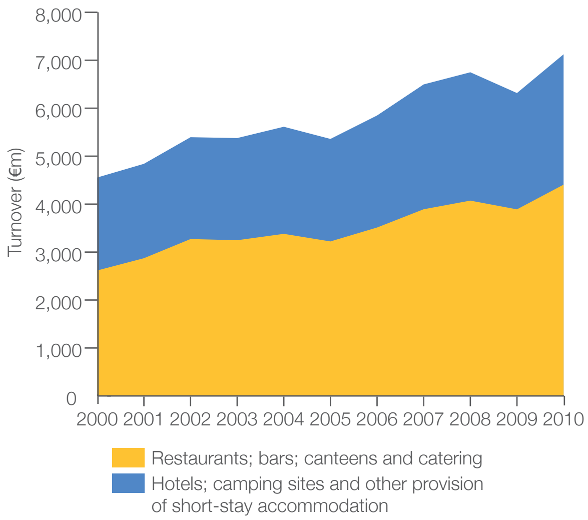
Restaurants and hotels hold the largest share of the hospitality sector in Norway, while the bar sub-sector is one of the smallest in Europe with approximately 500 enterprises operating in 2008. This may be associated with the relatively high price of alcoholic beverages in the country. In addition to this, the share of off-trade channels is particularly high in Norway, with consumers choosing to buy beer from the retail sector.

In recent years, residents in Norway have shown an increased interest and competence in food and alcoholic beverage culture. If this interest continues, demand for high quality food and beverages will persist in the future.

One of the key challenges expected to affect all sub-sectors of the hospitality sector is whether prices will rise as a result of global factors, such as increases to the cost of importing raw material, or policy factors such as increases in excise to raise government revenues. Such changes could adversely affect demand for hotel rooms, meals eaten outside of the home and drinks purchased from bars and night establishments. Another challenge is the recent increase in popularity of web conferences which directly affects the demand for conferences held at hotels. Bars and night establishments are also likely to be affected by a proposed reduction in opening hours from 3am to 2am.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010

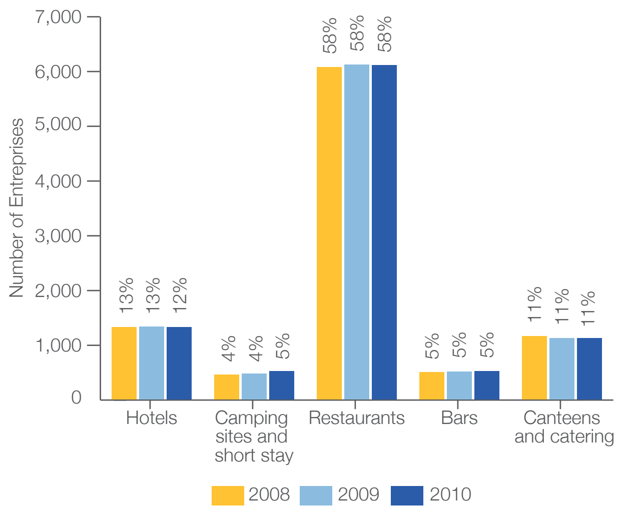


Source: Eurostat

The food and beverage sub-sector contributes approximately 60% of the revenue in the hospitality sector. Overall, the sector has experienced 4.6% growth per annum despite the falls in 2005 and 2009 slightly lowering the average rate for the decade. Food and beverages grew at a faster rate than accommodation over this period, subsequently taking 5% market share from accommodation.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



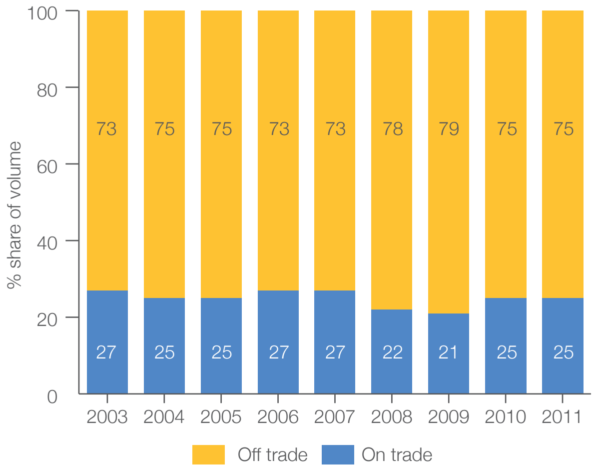
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

The number of enterprises in each sub-sector of hospitality has remained stable between 2008 and 2010. Restaurants contribute the largest number of enterprises to the hospitality sector (58%). Bars only make up 5% of enterprises, which is largely due to the lack of bar-only establishments in Norway.

On-trade vs. Off-trade

On-trade vs. Off-trade , beer sales, 2003 - 2011



Source: The Brewers of Europe

As shown above, the off-trade channel accounts for 75% of all purchases of beer in 2011. This reflects an improved performance in the hospitality sector between 2009 and 2011, as the Norwegian economy has returned to growth and disposable incomes grow.

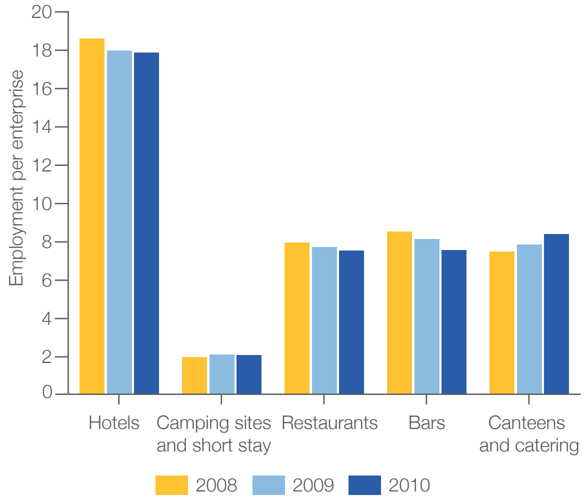
The shift back towards on-trade consumption brings additional economic benefits in terms of the economic activity it generates and the employment it supports.

Employment in the hospitality sector

Employment in the hospitality sector appears much more volatile than employment in the wider economy. The sector follows a broadly cyclical labour market profile over the decade in question, with a peak in numbers employed in the sector in 2007, with over 88,500 direct employees. Sector employment faced a sharp decline in 2009, in line with turnover trends in the sector, and despite a recovery in 2010; employment has yet to return to 2007 levels. Employment in the sector also fell in 2005, which may have been driven by the smoking ban which was introduced in 2004.

In comparison to the wider economy, the hospitality sector outperformed the national employment average for the first half of the decade, but worsened relative to the rest of the economy after 2005, falling and remaining below the average from 2008 onwards.

Employment per enterprise, 2008-2010



Source: Eurostat

Employment per enterprise in hotels, restaurants and bars fell slightly from 2008 to 2010 despite no relative fall in the number of these enterprises operating in Norway. Canteens and catering saw a slight increase in employment while employment in camping sites remained relatively flat.

Enterprise Focus

BARS

Norway has one of the smallest bar sub-sectors in Europe with approximately 500 enterprises operating in 2008 contributing only 3% of turnover in the hospitality sector. This size of the bar sub-sector is in contrast to the particularly high levels of off-trade, and both are likely to be explained by high levels of excise duty and VAT levied on the sub-sector.

In 2004, a smoking ban in Norway was introduced in all public areas. This may have had a negative effect on on-trade establishments.

RESTAURANTS

In Norway, restaurants contribute 46% of turnover in the sector, while employing over 50% of the hospitality sector's workforce. The number of restaurants operating in Norway has remained relatively flat since 2008, however turnover in the sub-sector has increased markedly by 7% between 2008 and 2010. The introduction of the smoking ban in 2004 is thought to have had a positive impact on the demand for restaurant meals.

In recent years, residents in Norway have shown an increased interest and competence in food and alcoholic beverage culture. If this interest continues, demand for high quality food and beverages will persist in the future.

HOTELS

Hotels represent over one third of the hospitality sector in Norway, less than restaurants but considerably more than bars, camping sites and canteens and catering. Turnover growth in the hotels sub-sector has been muted in recent years, increasing by around 1% over the 2008 to 2010 period.

The growth of online booking systems has increased price competition in the market which may act to suppress revenue growth in the hotels sub-sector going forward.

Poland

Poland

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**7.3%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**8.4%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€15.0bn** (4.2% of the total)
GDP	**€5.9bn** (1.7% of the total)
Employment	**411,000** (2.6% of the total)

Total tax contribution of hospitality	**€1.5bn**
Excise	**€0.07bn** (5.0% of the total)
VAT	**€1.1bn** (72.0% of the total)
Employment	**€0.35bn** (23.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.63** is spent in the wider economy.

Key Messages

- The Polish economy grew at an average of 7.3% (nominal) between 2000 and 2010, with the hospitality sector growing at an even faster rate of 8.4%.
- Whilst the return to growth in the wider economy has been strong in 2010 (14%), the hospitality sector has struggled in relative terms (at only 5% growth in 2010).
- The sector has been hit particularly hard in terms of enterprise numbers, which fell by 16 per day in 2009 and 17 per day in 2010. Bars in particular have felt the impact of a big shift in consumption away from the on-trade, with 46% loss in capacity from 2008.

Summary

The Polish economy performed strongly between 2000 and 2010, growing at an average annual rate of 7.3%, with its recovery from the economic downturn being one of the strongest in Europe (14% in 2010). The period following accession to the EU in 2004 has been particularly strong for Poland, with GDP growing at an average of 15% per annum in the four years to 2008.

The hospitality sector experienced 8.4% nominal growth per annum in turnover between 2002 and 2010, with particular expansion between 2004 and 2008 (of 21% per annum) to reach a peak of €6.7bn, before falling by 19% in 2009. Whilst the Polish economy as a whole recovered at 14% in 2010 the hospitality sector grew by only 5% to finish the period at €5.7bn.

In 2010, the sector directly employed a total of 230,000 people across 50,000 enterprises. Restaurants are the largest contributor to turnover (45% of the total), enterprises (42%) and employment (48%), with hotels accounting for 27% of total turnover, 20% of employees and 6% of enterprises. In 2009, over 5,500 enterprises closed down (over 15 per day), rising to 7,700 closures in 2010 (17 per day). Closures were concentrated in the bar sub-sector, with a total loss of 9,440 enterprises since 2008 (46% of the 2008 level). This reflected a fall in turnover of 40% in the sub-sector and resulted in a 46% reduction in employment.

The off-trade in Poland has grown significantly since 2007 (from 75% to 87% in 2011). This reflects a period where many consumers have been faced by a fall in disposable income, increases in excise duties and VAT, and the introduction of the smoking ban in 2010.

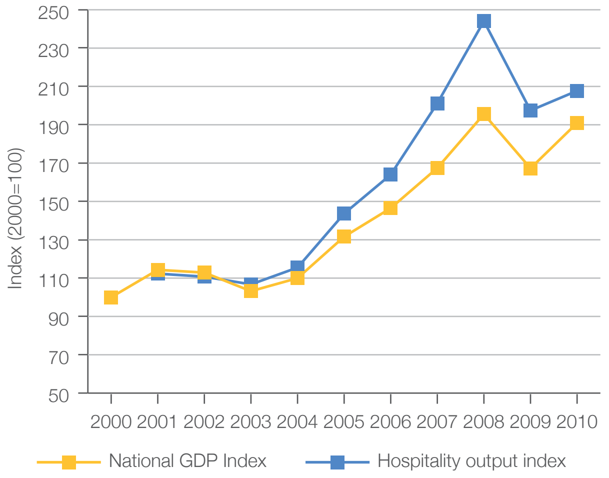
Economy Overview

The Polish economy performed strongly between 2000 and 2010, growing at an average annual rate of 7.3%, with its recovery from the economic downturn being one of the strongest in Europe. The period following accession to the EU in 2004 was particularly strong for Poland, with GDP growing at an average of 15% per annum in the four years to 2008. Although growth dipped in 2009, there was a strong recovery to 2010 (+14%) and subsequent stable performance until a recent slowdown in growth in 2012 due to a softening in the drivers of the Polish economy (exports, consumer spending and investment).

Whilst growth in GDP was particularly strong between 2000 and 2010, employment has only grown at an average of 1.1% per annum. This reflects the increasing value added in the Polish economy, with each employee delivering significantly greater output. During the same period the hospitality sector grew at a faster rate than the economy as a whole, at an average of 8.4% per annum, with particularly quick growth between 2004 and 2008, resulting from an increased tourist market (due to accessibility improvements) and rising domestic incomes.

Unemployment is expected to edge upwards temporarily in 2013, however it is expected that domestic demand will be supported by rising wages, declining interest rates and decelerating inflation. The positive outlook for consumer demand, together with a recent recovery in tourism numbers should help to support the hospitality sector in Poland going forward.

GDP and hospitality turnover index, 2000 - 2010



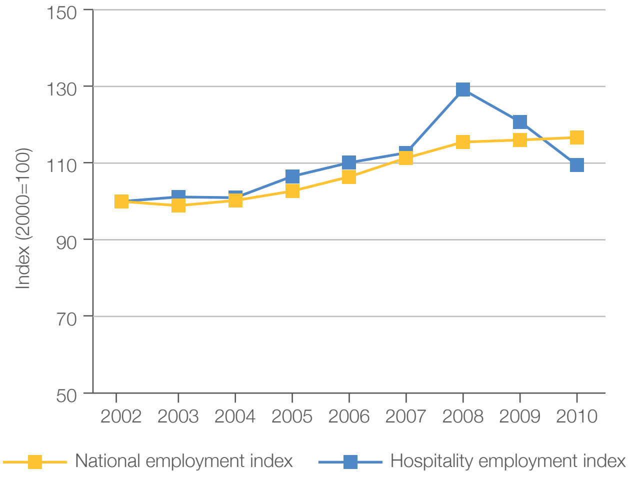
Source: Eurostat

The average annual nominal growth in hospitality sector turnover (8.4%) outstripped nominal GDP growth (7.3%) over the 2000 to 2010 period. This highlights the increasing contribution that the sector plays in wider economic performance.

Both experienced strong growth between 2004 and 2008, before a decline in 2009 linked to the global economic downturn and associated impacts on discretionary spending. Both GDP and turnover in the hospitality sector have recovered strongly in 2010 at 14% and 5% respectively.

Inflation in Poland over the 2000 to 2010 period grew at an average annual rate of 3.2%. Adjusting for inflation, average GDP growth over the period was 4.1%, and growth in the hospitality sector was 5.2%.

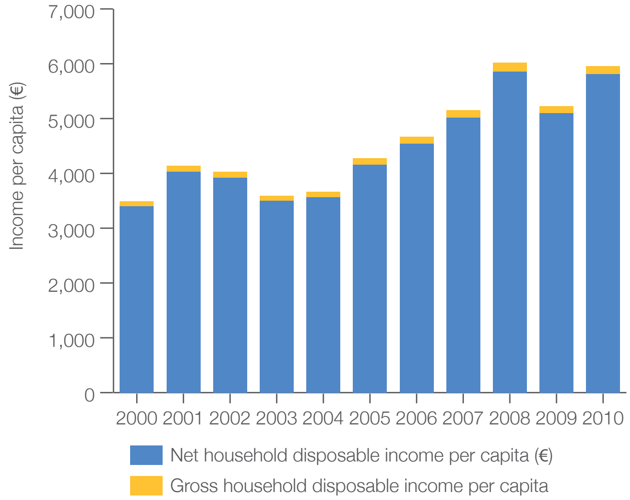
National and hospitality employment index, 2002-2010



Source: Eurostat

Employment in Poland remained steady throughout the period shown, growing at an average annual rate of 1.1%. Hospitality employment grew at a faster rate initially, increasing by an average annual rate of 4.5% between 2002 and 2008, before a sharp contraction to 2010.

Real Net and Gross disposable income per capita EUR, 2000-2010



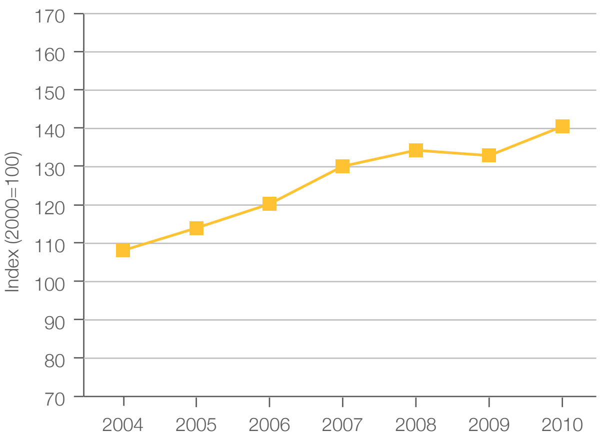
Source: Eurostat

Real net disposable income per capita in Poland has followed a similar path to GDP and hospitality, experiencing fast growth between 2004 and 2008 (average annual growth rate of 10%), stimulated by Poland's accession to the EU. Disposable income fell in 2009 by some 13%, before recovering strongly in 2010.

Consumer spending has recently been under pressure amid the ongoing Eurozone crisis, with consumer confidence weakening and unemployment rates rising. However, recent increases in unemployment have had little negative impact on wages, with average salaries continuing to rise, generating a boost in consumer demand overall.

It is expected that this modest revival of household demand will continue into the future as interest rates have recently decreased sharply, household incomes have continued to rise, and general rates of inflation have remained low. The combination of these factors suggests a more positive outlook going forward.

Tourism index, 2004-2010



Source: Eurostat

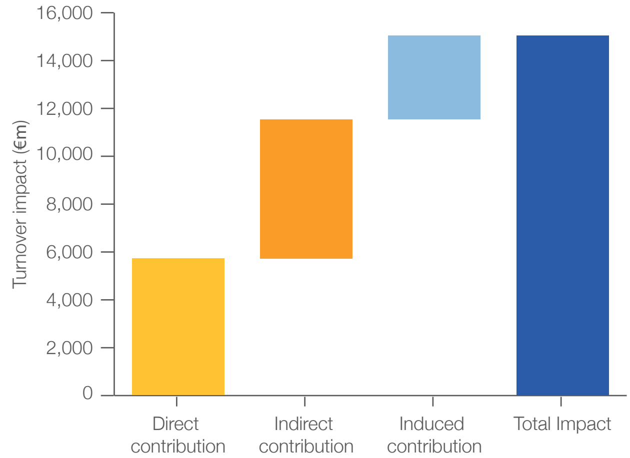
On the whole, tourism in Poland has grown relatively steadily between 2004 and 2010. As with the majority of Europe, tourism declined in 2009, before a recovery (of 6%) in 2010.

The growth since 2004 has been underpinned by increased accessibility from accession to the EU and the expansion of low cost airlines, making trips to Poland more affordable and available to a wide market of travelers.

Economic Contribution of the hospitality sector

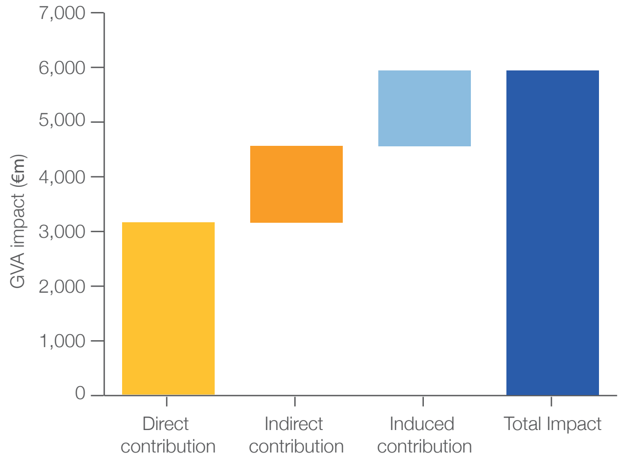
The total turnover supported by the Polish hospitality sector is estimated to be €15.0bn in 2010. Poland's hospitality sector contributes €5.9bn of value added to GDP, equating to 1.7% of the total. In delivering this output the sector supports 411,000 employees in total, equivalent to 2.6% of the workforce. The economic contribution of the hospitality sector in Poland is relatively low, compared to the European average. For every €1 spent by the sector, an additional €1.63 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

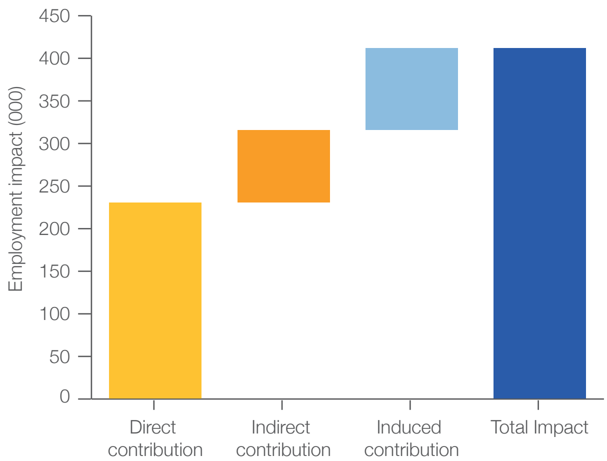
In 2010, the hospitality sector in Poland generated almost €6bn in direct turnover and supported €15.0bn in total, equivalent to 4.2% of the total.

Poland has the second highest indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') in Europe, at 2.02, so for every €1 spent by the sector, an additional €1.02 is spent in the supply chain. This suggests that a high proportion of inputs in the hospitality sector are sourced domestically, relative to other European countries.

Despite the large supply chain impact of the sector, the total contribution of the sector to output is one of the lowest in Europe.

The Polish hospitality sector generated a total of €5.9bn in value added for the Polish economy in 2010, which is equivalent to 1.7% of GDP. Of this total, approximately €3.2bn relates to the direct impact of the sector on value added, with €2.8bn representing supply chain (indirect) and consumption (induced) impacts.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

The Polish hospitality sector directly employed 230,000 individuals in 2010. Including both the direct, indirect and induced impacts, the hospitality sector supported approximately 411,000 individuals in the same year. This is equivalent to 2.6% of the workforce in Poland.

Regulation / Taxation

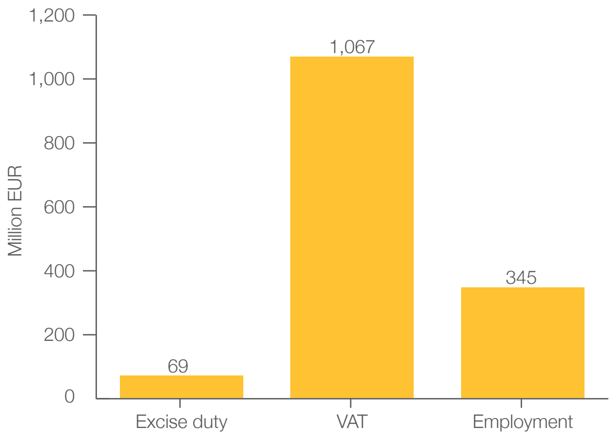
The Polish hospitality sector is currently subject to a number of taxes. Alcoholic beverages are subject to the standard rate of VAT of 23% (rising from 22% in 2011) and excise duty. The reduced rate of VAT of 8% applies to accommodation, food and fruit juice drinks. In 2009, excise duties on beer, wine and spirits were increased by the Polish government with the aim of raising government revenue and reducing the budget deficit.

Tax Receipts

The Polish hospitality sector is estimated to have contributed almost €1.5bn to the Exchequer in 2010 from excise duty, VAT and employee related contributions.

Of this, €69m was raised in excise duties arising from the sales of alcoholic beverages in the hospitality sector, and over €1bn from applicable gross VAT receipts (VAT deductions are not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, income taxes and employers and employees social security contributions raised €345m in revenue for the Exchequer in 2010.

Excise Duty

The last increases in excise duty on alcohol were in 2009. Beer duty increased to PLN 7.8 per °Plato/hl, wine duty to PLN 158/hl and spirits rose to PLN 4,960/hl pure alcohol. The duties were increased with the aim of raising Government revenue and reducing the budget deficit.

VAT and Reduced rates

The standard VAT rate in Poland is 23%. This rate is applied to all beverages (other than fruit juices) sold in establishments in the hospitality sector. The standard VAT rate was increased from 22% in 2011, with the aim of complying with a 3% government deficit target for Euro entry. The government had suggested that the VAT rise would be temporary, and that the rate would be reduced to 22%, however this is now unlikely in the short term, due to continued pressure on government finances.

Poland also has a reduced VAT rate of 8%, which applies to accommodation, food and fruit juice beverages sold in the hospitality sector.

Hospitality sector in focus

Overall, the sector experienced 8.4% nominal growth per annum in turnover between 2002 and 2010, with particular expansion between 2004 and 2008 (of 21% per annum) to reach a peak of €6.7bn, before falling by 19% in 2009. Whilst the Polish economy as a whole recovered at 14% in 2010 the hospitality sector grew by only 5% to finish the period at €5.7bn.

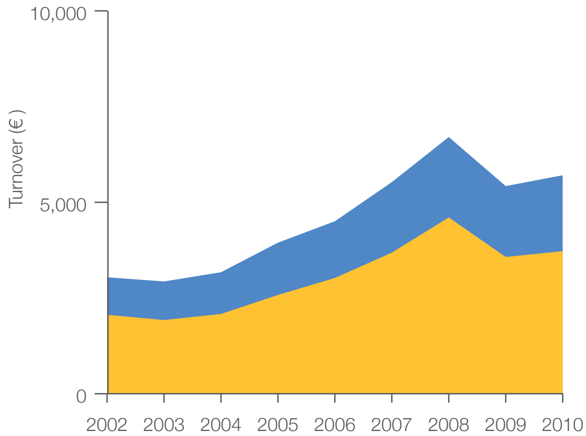
In 2010 the sector directly employed a total of 230,000 people across 50,000 enterprises. Restaurants are the largest contributor to turnover (45% of the total), enterprises (42%) and employment (48%), with hotels accounting for 27% of total turnover, 20% of employees and 6% of enterprises.

The sharp decline in turnover in 2009 and modest recovery in 2010 resulted in a 20% loss in capacity in the hospitality sector. In 2009, over 5,500 enterprises closed down (over 15 per day), rising to 7,700 closures in 2010 (17 per day). Whilst a decline was witnessed across the sector, it was most pronounced in the bar sub-sector, with a total loss of 9,440 enterprises since 2008 (46% of the 2008 level). This reflected a fall in turnover of 40% in the sub-sector and resulted in a significant reduction in employment (of 46%).

The off-trade in Poland has historically been relatively large when compared with many European countries. This trend has increased significantly since 2007, with the proportion of beer consumed in the off-trade growing from 75% to 87% between 2007 and 2011. This rise was mainly concentrated between 2009 and 2011, a period where many consumers have been faced by a fall in disposable income, an increase in excise duties and VAT, and the introduction of the smoking ban in 2010.

Turnover in the hospitality sector

Hospitality sector breakdown, 2002-2010



Source: Eurostat

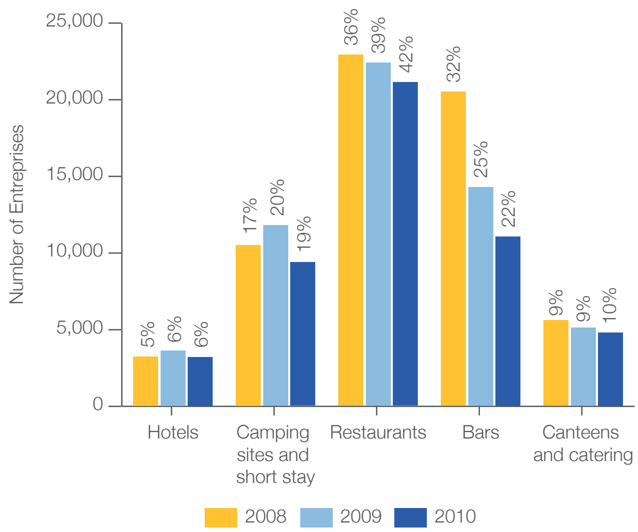
Until the peak in 2008, the hospitality sector grew at a rapid pace of 9.3% per annum. This was driven by 10.4% pa growth of the food and beverage sector, which represents over two thirds of the hospitality turnover in Poland. The significant decline in 2009 and slight recovery in 2010 can be linked to the fall in household income stemming from the economic downturn, resulting in consumers having less disposable income to spend on hospitality services.

Despite growing at a slower rate throughout the whole period, hotels showed the greatest resilience to the downturn in 2009, with turnover less than 1% below 2008 levels by the end of 2010. The bar sub-sector lost turnover of 40% in the 2008 to 2010 period, resulting in the closure of 9,440 bars, and the loss of almost 28,000 jobs.

The restaurant sub-sector grew the fastest in 2010 (8.8%), despite the loss of over 1,200 establishments in that year.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010

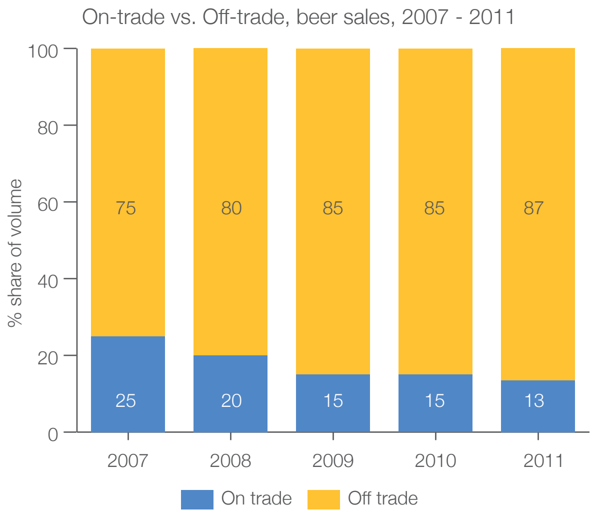


Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Between 2008 and 2010, the number of bars operating in Poland fell by 46%, decreasing their proportion of hospitality enterprises from 32% to 22%. This compares to a fall in restaurants of only 8%. Despite returning to 2008 levels of turnover in 2010, hotel numbers fell by 7% in that year.

On-trade vs. Off-trade



Source: The Brewers of Europe

In Poland, there has been a significant recent increase in off-trade beer sales; since 2007, the off-trade has increased its share of volume sales by 12 percentage points from 75% to 87%. This trend is consistent with the significant decline in the number of bar establishments observed over the period.

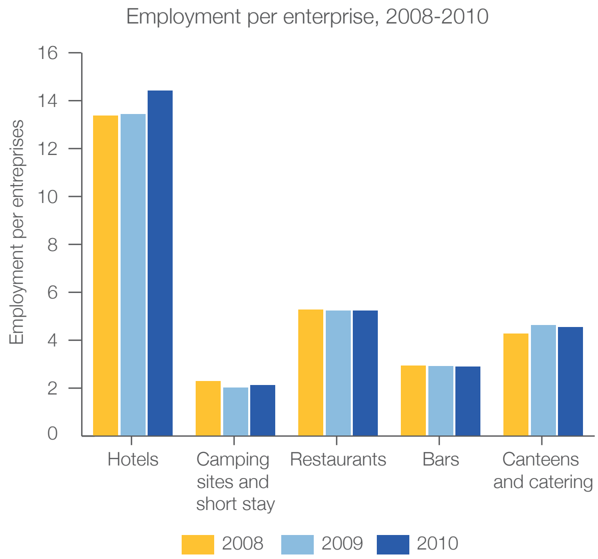
This shift may be a product of the increase in excise duty implemented by the Polish government in 2009, together with the increase in VAT in 2011, which off-trade establishments may have been better able to absorb, further widening the price differential between the off-trade and the hospitality sector.

Another factor in this shift could be the introduction of a smoking ban in public places, including bars and restaurants, in November 2010. This is likely to have further impacted consumer buying behaviour by changing the environment in which they consume beer.

Employment in the hospitality sector

Employment in the hospitality sector grew strongly between 2002 and 2008, at an average annual rate of 4.5%. At its peak in 2008, the hospitality sector employed approximately 271,000 individuals directly. Employment has declined significantly since this peak, by around 15%. The largest drop has been in the bar sub-sector, with over 28,000 job losses between 2008 and 2010.

In 2010 hotels employed just under 46,000 people whilst restaurants employed 110,000 and bars 31,700.



Source: Eurostat

Employment per enterprise in Poland has remained relatively flat across the majority of sub-sectors in the hospitality sector. Hotels buck this trend, with an increase from 13 employees on average per enterprise to 14.

Enterprise Focus

BARS

Poland has a relatively large bar sub-sector, with approximately 20,000 enterprises operating in 2008 (32% of the sector total). However, the size of the bar sub-sector contracted dramatically, with turnover falling by a substantial 40% over the 2008 to 2010 period. As a result of this contraction, only 11,000 enterprises (22% of the sector total) operated in the bars sub-sector in 2010 (a 46% reduction).

Despite the sharp fall in the number of bar enterprises in Poland, average employment per bar remained constant between 2008 and 2010.

A key challenge facing the bars sub-sector going forward is the combination of increasing input costs and heightened price competition, placing pressure on operator margins.

RESTAURANTS

Restaurants are the largest sub-sector in the hospitality sector in Poland: over 20,000 enterprises contributed 45% to hospitality turnover in 2010.

Trends in turnover in the restaurant sub-sector have broadly followed those of the hospitality sector as a whole, with a decrease in turnover in 2009 and a slight recovery in 2010. Turnover contracted by approximately 13% over the 2008 to 2010 period in total.

The impact of the smoking ban in Poland may have both positive and negative effects on restaurants and cafés, with increasing demand amongst families and non-smokers and decreasing demand amongst smokers.

As in other sub-sectors, the forecasted increase in household disposable income is likely to present an opportunity for restaurants, stimulating demand in the sub-sector.

HOTELS

Hotels represent the smallest number of enterprises in the hospitality sector in Poland (6%), despite holding the second largest share of turnover (27%) in 2010.

The hotel sub-sector was the only one to return to 2008 levels of turnover by the end of 2010, helped in part, by the application of the reduced rate of VAT. This has ensured that hotels have been able to remain competitive in a squeezed domestic and international market.

The sub-sector has shown its ability to be resilient but may be susceptible to future VAT changes, such as increases in the current reduced rate or abolishment of the reduced rate, both of which could have a detrimental effect on the sub-sector.

Portugal

Portugal

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**3.1%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**4.3%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€22.0bn** (12.7% of the total)
GDP	**€10.1bn** (5.9% of the total)
Employment	**611,000** (13.1% of the total)

Total tax contribution of hospitality	**€2.1bn**
Excise	**€0.15bn** (7.0% of the total)
VAT	**€1.6bn** (78.0% of the total)
Employment	**€0.32bn** (15.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.24** is spent in the wider economy.

Key Messages

- Portugal has a particularly large hospitality sector, sensitive to a large tourist industry and an engrained domestic culture for eating/drinking out.
- The hospitality sector is an increasingly important job provider, with 30% more job opportunities in 2010 than in 2000 (despite employment as a whole remaining stagnant).
- Whilst a recovery in tourism has helped to support one of the largest on-trades in Europe, with 69% of beer being sold in the hospitality sector, the increases in standard VAT rates and stagnant domestic incomes will continue to be a challenge in the medium term.

Summary

Between 2000 and 2010, GDP in Portugal grew at an average annual rate of 3.1%, with the hospitality sector contributing an increasingly high proportion of economic activity, with average growth of 4.3% per annum. Both GDP and the hospitality sector peaked in 2008, falling in 2009 with the wider economic downturn. A recovery of 2.5% in GDP growth in 2010 provides some signs of improvement but may be challenged by the adoption of a set of austerity measures, including cuts in public employees' salaries by between 3.5% and 10% and the freezing of pensions in the private and public sector, effective January 2011.

Whilst the hospitality sector as a whole experienced a downturn in 2009, turnover in 2010 (€9.80bn) was only marginally below the peak of 2008 (€9.84bn). Between 2008 and 2010, the hotel sub-sector suffered the most, with turnover falling by 7% to €2.2bn. Despite challenging demand conditions, turnover in the restaurant sector was 2% higher in 2010 than in 2008 at €4.2bn.

Portugal has a large and engrained domestic hospitality culture, as well as being an established tourist destination. This has helped develop its bar sector to be one of the largest in Europe, consisting of 48,200 enterprises in 2010, and is a key reason why a high proportion (69%) of beer sales are in the hospitality sector rather than the off-trade, generating wider economic and employment benefits.

In 2010, the Portuguese hospitality sector supported turnover of €22.0bn, equal to 12.7% of total output. In terms of value added to GDP, this amounted to €10.1bn, or 5.9% of the total. In delivering this output, around 611,000 jobs were supported, equivalent to 13.1% of the total workforce.

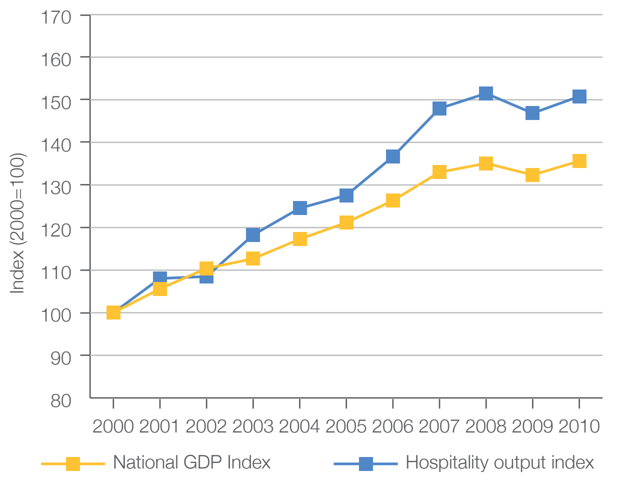
Economy Overview

Between 2000 and 2010, GDP in Portugal grew at an average annual rate of 3.1%, with the hospitality sector contributing an increasingly high proportion of economic activity, with average growth of 4.3% per annum. Both GDP and the hospitality sector peaked in 2008, falling in 2009 with the wider economic downturn having significant implications for domestic consumption and international tourist arrivals.

A recovery of 2.5% in GDP growth in 2010 provides some signs of improvement but may be challenged by the adoption of a set of austerity measures, including cuts in public employees' salaries by between 3.5% and 10% and the freezing of pensions in the private and public sector, effective January 2011. Consequently, consumer purchasing power was weakened at the beginning of 2011.

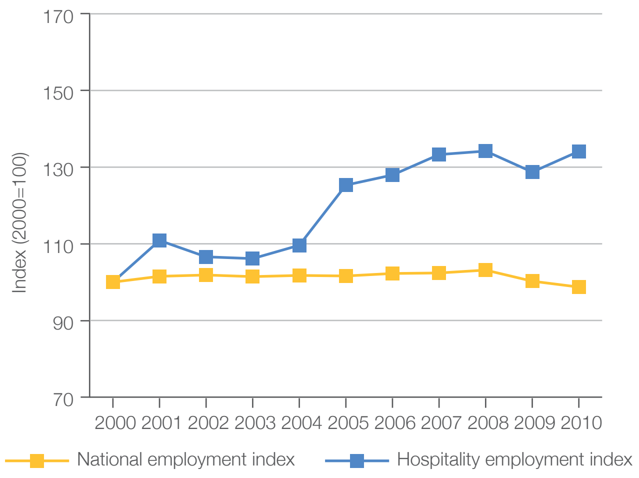
Portugal's GDP has contracted since the end of 2010, and the negative trend is expected to continue in 2013, with domestic demand being suppressed by record unemployment, tax rises and tighter credit conditions.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

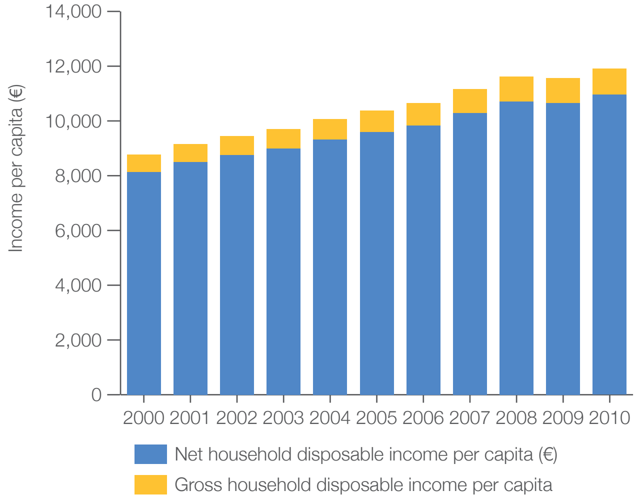
Between 2000 and 2010, GDP and the hospitality sector grew at average annual rates of 3.1% and 4.3% respectively. The economic downturn in 2008 and 2009 led to a decline in GDP (-2%) and hospitality output (-3%) in 2009, before a recovery of 2.5% in 2010. GDP has since contracted as austerity measures have begun to impact on domestic demand.

Inflation in Portugal over the 2000 to 2010 period has grown at an average annual growth rate of 2.7%. Adjusting for inflation, average GDP growth over the period was 0.4%, and growth in the hospitality sector was 1.6%.

Employment in the hospitality sector grew strongly between 2004 and 2008, with the sector becoming an increasingly important employer.

In contrast, national employment in Portugal has seen little growth over the period, and has declined significantly from 2008 onwards. In 2011, national unemployment rose by 3 percentage points to 14%, continuing to weaken spending power among consumers.

Real Net and Gross disposable income per capita EUR, 2000-2010



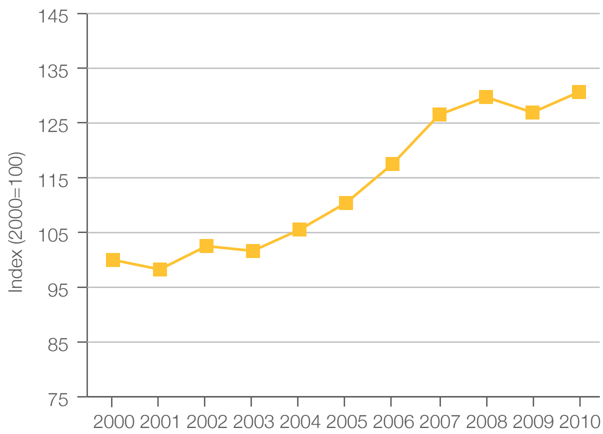
Source: Eurostat

In real terms, net disposable income grew at 3.0% over the period to around €11,500.

Private consumption in Portugal had been relatively robust since the country's accession to the Eurozone. Real private consumption was an engine of growth between 2000 and 2008, rising by an average of 1.8%. Consumption was driven by strong wage increases and low interest rates over this period.

Consumption fell by 3.8% in 2011 and 5.6% in 2012, as a result of record high unemployment, tighter fiscal policy and tight credit conditions. It is likely that consumption will remain weak going forward, putting ongoing pressure on the hospitality sector.

Tourism index, 2000-2010



Source: Eurostat

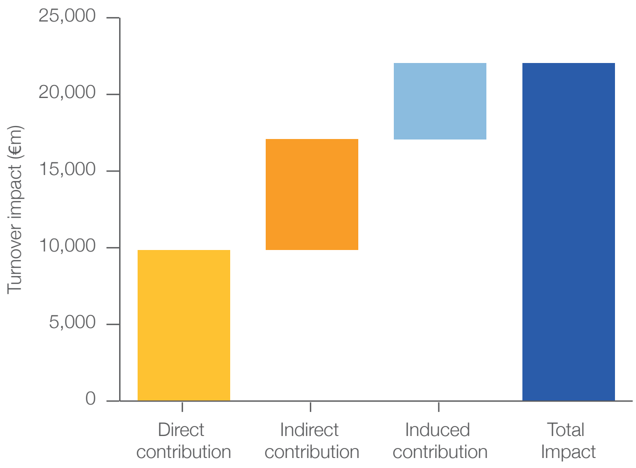
The 2000 to 2010 period was characterised by a strong growth in tourism between 2003 and the peak in 2008, with the total growing by an average of 5% per annum in that period.

Tourism as a whole plays a major role in Portugal's economy, contributing about 5% of GDP. The resident population of 10.6m was boosted by 12.1m foreign visitors in 2008, primarily to Lisbon, the Algarve and the island of Madeira. British, Spanish and German tourists are the most numerous and since all three countries have a higher per capita consumption of beer than Portugal, they represent an important market for the Portuguese bar sub-sector.

Economic Contribution of the hospitality sector

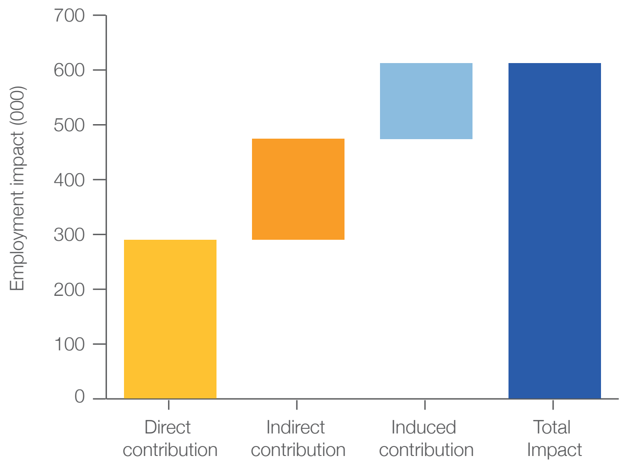
The hospitality sector is particularly important to the Portuguese economy, supporting total turnover of €22.0bn in 2010. This is the third highest contribution to output in Europe in relative terms. Portugal's hospitality sector contributes €10.1bn of value added to the economy, which is equivalent to 5.9% of GDP. The sector also supports 611,000 employees, accounting for 13.1% of the workforce (this is the fourth highest contribution, from an employment perspective, in Europe). For every €1 spent by the sector, an additional €1.24 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

Employment impact of the hospitality sector, 2010

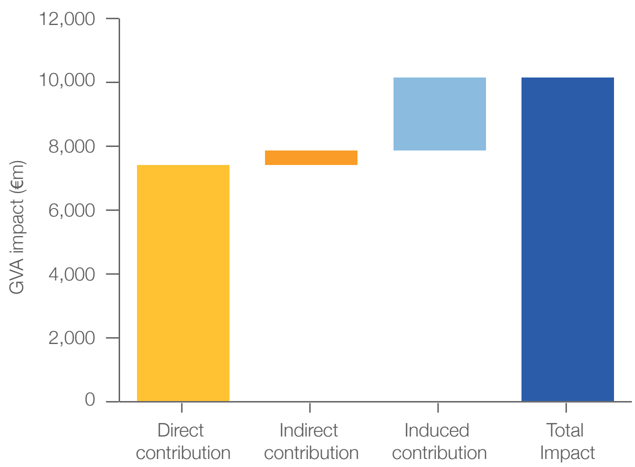


Source: Eurostat, EY calculations

Portugal's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.74, meaning that for every €1 spent by the hospitality sector an additional €0.74 of demand is generated in its supply chain.

In 2010, the total turnover supported by the hospitality sector was €22.0bn, equivalent to 12.7% of output. This is the third highest proportion in Europe, behind Cyprus and Malta.

GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

The Portuguese hospitality sector generates a total of €10.1bn in value added for the Portuguese economy, which is equivalent to 5.9% of GDP.

In 2010, the hospitality sector directly employed 289,000 people. With an indirect employment multiplier of 1.64, a further 184,000 people were employed in the supply chain and 138,000 from induced effects. In total, the sector supported 611,000 jobs, 13.1% of the total workforce (the fourth highest in Europe).

Regulation / Taxation

The Portuguese hospitality sector is subject to different rates of VAT. The standard rate of VAT (23% in 2011) is applied to food, beer, cider and spirits while wine and water served is subject to a lower rate of 13%. A reduced VAT rate of 6% is applied to accommodation and fruit juices in the hospitality sector. Since 2002, when the standard rate increased from 17% to 19%, there have been four subsequent changes. This highlights the way in which the Portuguese government has used changes in VAT to achieve certain policy objectives, either to encourage consumer spending (as per the 1% reduction in 2008) or to increase tax receipts (as per the 2% increase in 2011).

There have been several small increases in excise duty on beer and spirits since 2008. The net effect has been an increase in beer duty to €18.7/hl and in spirits duty to €1,192/hl pure alcohol in 2013.

Portugal does not currently implement tourism taxes. However in September 2010, Lisbon considered the introduction of a two-tiered tourist tax consisting of a €1 tax on all visitors arriving in Lisbon and a hotel bed tax of up to €1.90 per person per night. To date this proposal has not developed further.

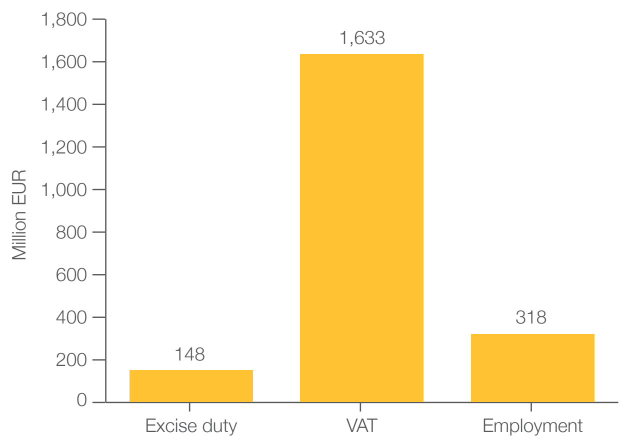
Tax Receipts

The hospitality sector in Portugal is estimated to have contributed almost €2.1bn to the Exchequer in 2010 from excise duty, VAT and income tax and social security contributions.

Of this, €148m was raised in excise duties arising from the sales of alcoholic beverages through on-trade channels. This figure was estimated by multiplying total excise duty receipts by the proportion of beer sales that are through on-trade channels.

€1.6bn was also collected by the Portuguese government in 2010 from revenue raised from gross VAT receipts from the sector (VAT deductions were not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, income taxes and employers and employees social security contributions raise €318m in revenue for the Exchequer.

Excise Duty

There have been several small increases in excise duty on beer and spirits since 2008. The net effect has been an increase in beer duty to €18.7/hl and spirits duty to €1,192/hl pure alcohol in 2013. There has been no change in excise duty applied on wine, which has remained zero rated.

VAT and Reduced rates

The standard VAT rate in Portugal is applied to all food, beer, cider and spirits sold in establishments in the hospitality sector. Since 2000, the rate of standard VAT has changed a number of times. Prior to 2002, the standard rate of VAT was 17%. This increased to 19% in 2002 and again to 21% in 2005. In 2008, the Portuguese government reduced the standard VAT rate by 1 percentage point to 20%, to encourage consumer spending after the economic downturn. In 2010, the standard VAT rate was increased to 21%, and raised by another 2 percentage points in 2011 to 23%.

VAT levied on still wine is lower than the standard rate: in 2009, the rate was 12%. In 2010, VAT on still wine rose by 1 percentage point to 13% and rose again by 2 percentage points. The tourist areas of Madeira and the Azores apply a reduced rate on alcoholic beverages: 9% for wine and 15% for beer, cider and spirits (2011).

A reduced rate of 13% is applied to bottled and table water with a 6% rate applied to fruit juices and accommodation, which increased from 5% in 2010, in line with a similar increase in the standard rate of VAT.

Other taxes

Portugal does not currently implement tourism taxes. However in September 2010, Lisbon considered the introduction of a two-tiered tourist tax consisting of a €1 tax on all visitors arriving in Lisbon and a hotel bed tax of up to €1.90 per person per night. To date there have been no further developments to note.

Hospitality sector in focus

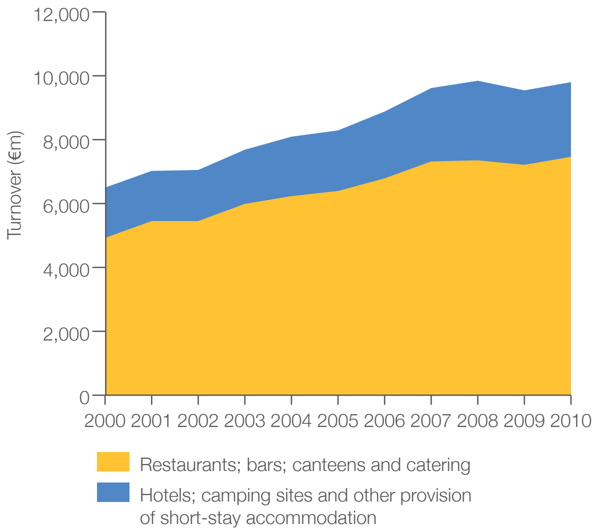
Between 2000 and 2010, the hospitality sector in Portugal grew nominally by 4.3% per annum, with over three quarters of the revenue in the sector generated by food and beverage enterprises. Portugal has an established bar culture and the sub-sector is one of the largest in Europe with almost 50,000 enterprises operating in 2010. This is supported by a high proportion of beer sales (69% in 2011) being in the hospitality sector rather than the off-trade.

Whilst the sector as a whole experienced a downturn in 2009, turnover in 2010 (€9.80bn) was only marginally below the peak of 2008 (€9.84bn). Between 2008 and 2010, the hotel sub-sector suffered the most, with turnover falling by 7% in the two years to €2.2bn. Despite challenging demand conditions, turnover in the restaurant sub-sector was 2% higher in 2010 than in 2008 at €4.2bn.

In 2008, the Portuguese government introduced a smoking ban in all hospitality outlets except those above 100 square metres equipped with ventilation systems to eliminate the smoke. The possible impact on the on-trade from the ban is not yet clear: the proportion of on-trade sales of beer fell by 3 percentage points from 2006 to 2009 before increasing by 6 percentage points to 69% in 2011.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010



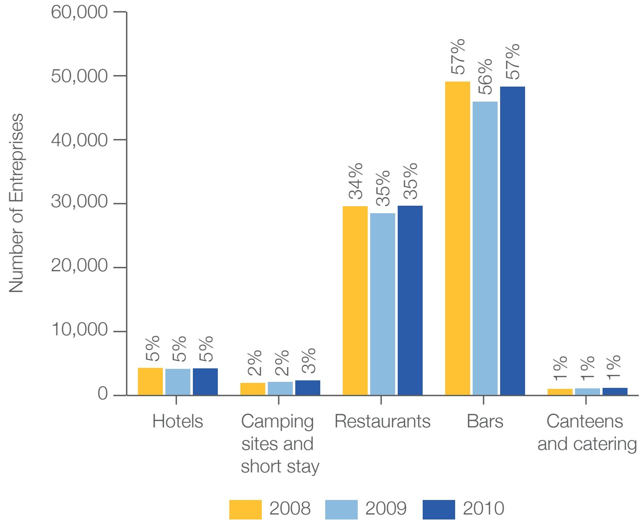
Source: Eurostat

In Portugal over three quarters of the hospitality sector is made up of the food and beverage sub-sector. Over the period, the hospitality sector experienced average growth of 4.3% per annum.

Whilst the sector experienced a downturn in 2009, turnover in 2010 (€9.80bn) was only marginally below the peak of 2008 (€9.84bn). Between 2008 and 2010, the hotel sub-sector suffered the most, with turnover falling by 7% in the two years to €2.2bn. Despite challenging demand conditions, turnover in the restaurant sub-sector was 2% higher in 2010 than in 2008 at €4.2bn[1].

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



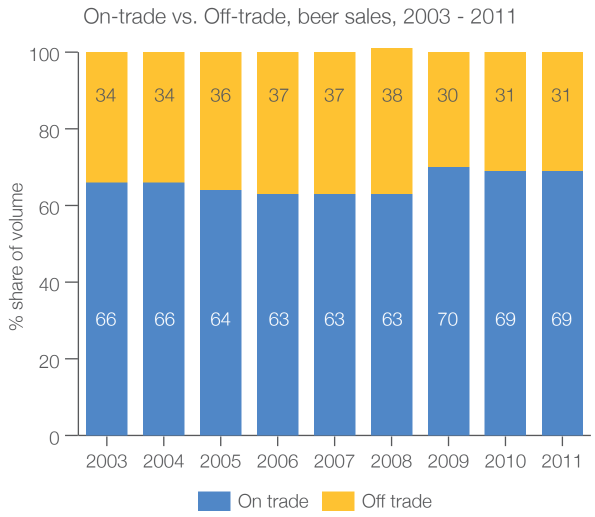
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Bars represented over 50% of the number of enterprises operating in the hospitality sector in Portugal (48,200 in 2010), while contributing 26% to sector turnover. They showed particular resilience between 2008 and 2010, with a 1% reduction in enterprises and turnover.

1 According to the Portuguese National Statistics Institut, the restaurant sector turnover in 2010 was € 7.4bn. This difference is likely to be due to classification, and will be accounted for in other sub-sectors as defined by Eurostat.

On-trade vs. Off-trade



Source: The Brewers of Europe

Due to its domestic hospitality culture and large tourism industry, Portugal has an established bar sub-sector with 48,200 operating in 2010. The success of these bars and other hospitality outlets largely depends upon consumer preferences between consumption in the on-trade or off-trade.

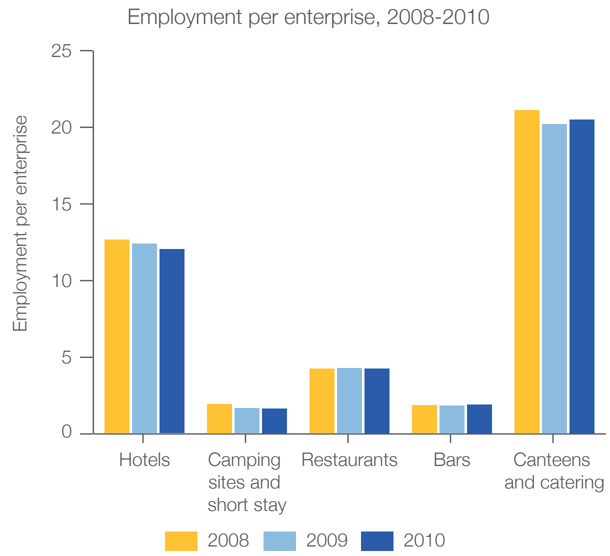
The proportion of beer sales in the on-trade in Portugal is relatively high compared to other European countries.

The dip in tourist numbers in 2009, alongside the introduction of a smoking ban may help to explain the decreasing proportion of on-trade sales, with tourists more likely to purchase alcohol from bars as opposed to off-trade establishments. The recovery of tourism in 2010 will have helped to reverse the 2006 to 2009 trend.

Employment in the hospitality sector

Between 2000 and 2010, employment in the hospitality sector grew at 3.0% on average per annum. Employment growth peaked in 2008, with almost 290,000 individuals directly employed in the sector.

Employment then declined in 2009 by 4% before recovering to 2008 levels by 2010. Restaurants are the largest employer in the sector, with 43% of the total. Bars account for 26% and hotels for a further 23%.



Source: Eurostat

Enterprise Focus

BARS

Portugal has an established bar culture and the sub-sector is one of the largest in Europe, with 48,200 outlets operating in 2010. The number of enterprises fell between 2008 and 2009 before growing positively again in 2010. Between 2008 and 2010, turnover decreased by 2% overall for the bars sub-sector.

Over the last 10 years, a number of positive and negative changes have been made to VAT rates on alcoholic beverages in Portugal. Most notably, standard rate of VAT was reduced by 1 percentage point to 20% to encourage consumer spending. However, this was combined with the introduction of the smoking ban at the beginning of 2008, so the net impact on the hospitality sector is difficult to ascertain (turnover data per sub-sector is not available prior to 2008).

Changes in VAT rates have been used as a policy tool by the Portuguese government a number of times in recent years as continued pressures on government finances cause the government to tighten fiscal policy.

The recent rejection of several further austerity measures as unconstitutional by the Constitutional Court (including wage cuts for public sector workers) is likely to cause the government to introduce new measures to address their funding shortfall. Any future increases in VAT rates in the hospitality sector in the future, are likely to directly impact consumer purchasing power and the demand for consumption outside of the home.

In addition, higher input costs, lower beer consumption and continued pressure on consumer purchasing power are likely to constrain operators' profit margins going forward.

RESTAURANTS

Portugal has a strong restaurant and café culture which helps to maintain the sub-sector, with turnover in the restaurant sub-sector growing by 2% between 2008 and 2010. Restaurants contribute over 40% to the hospitality sector while employing 43% of the workforce. The number of restaurant enterprises operating in Portugal has remained just under 30,000 between 2008 and 2010.

As with other sub-sectors, the ongoing economic challenges in Portugal will continue to create difficult trading conditions for restaurants. Specifically, decreases in household spending, the possibility of future tax rises and increases in input costs are likely to put pressure on operators' margins in the future.

Hotels

Hotels represent over one fifth of hospitality sector turnover in Portugal, less than both bars and restaurants. The number of hotels operating in Portugal in 2010 was just over 4,000, remaining flat since 2008. Employment per hotel has fallen by 4.9% since 2008. The hotels sub-sector has performed relatively poorly in turnover terms relative to other sub-sectors in the hospitality sector, with turnover decreasing by 7% between 2008 and 2010.

As mentioned previously, no tourism taxes are currently in place in Portugal but in 2010 Lisbon considered the introduction of a two tier tourist tax. To date there has been no further developments on this; however any future attempts to raise revenue through tourism taxes are likely to negatively impact hotels' price competitiveness.

Romania

Romania

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**12.5%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**14.5%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€6.1bn** (4.9% of the total)
GDP	**€2.5bn** (2.1% of the total)
Employment	**429,000** (5% of the total)

Total tax contribution of hospitality	**€547m**
VAT	**€451m** (83.0% of the total)
Employment	**€95m** (17.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.63** is spent in the wider economy.

Key Messages

- Between 2004 and 2008 the Romanian hospitality sector performed particularly strongly, benefiting from relatively low levels of VAT and accession to the EU in 2007.
- Falling disposable incomes and dropping tourist numbers as a result of the economic downturn resulted in a fall in hospitality sector turnover of 22% from 2008 to 2010.
- A reduction of seven percentage points in the on-trade share of beer sales is symptomatic of the challenges facing the sector. The effect of the VAT rise in 2010 has not been fully captured but is likely to have negatively impact consumer spending.

Summary

The Romanian economy had the largest nominal average annual growth rate in GDP in Europe (12.5%) following particularly strong growth between 2004 and 2008 (23%). However this is tempered by high rates of inflation in the country over the period. The Romanian economy entered into recession in 2009 with a fall of 15% in GDP (nominal). The Euro-crisis and government austerity measures have dampened demand in some of Romania's key export markets and reduced domestic incomes.

The Romanian hospitality sector is currently subject to the standard rate of VAT in Romania (24%), which was increased from 19% in 2010 significantly impacting prices in the hospitality sector as well as consumers' wider purchasing power. A reduced rate of 9% is applied to accommodation.

The hospitality sector grew to a peak of just under €3bn of turnover in 2008, followed by a 22% fall by the end of 2010, finishing the period at €2.3bn. Restaurants accounted for almost 40% of turnover in the sector, while employing 43% of the hospitality sector's workforce (over 60,700 in 2010). The number of restaurants was higher in 2010 (at 8,200) than in 2008 (8,000), showing a particular resilience to a corresponding fall in turnover of 9%.

Hotels are the second largest sub-sector in turnover terms, accounting for 31% of the total in 2010, and employing around 35,500 people. Bars have been particularly impacted by tax (increases in VAT and excise duties) and regulatory changes (e.g. smoking ban), with a 7% reduction in enterprises in 2010 (net closure of over seven bars per week). The trading environment in the hospitality sector has become more challenging since 2010 due to declining consumer confidence and spending power, increasing VAT rates, regulatory changes (such as the smoking ban) and increasing levels of off trade sales.

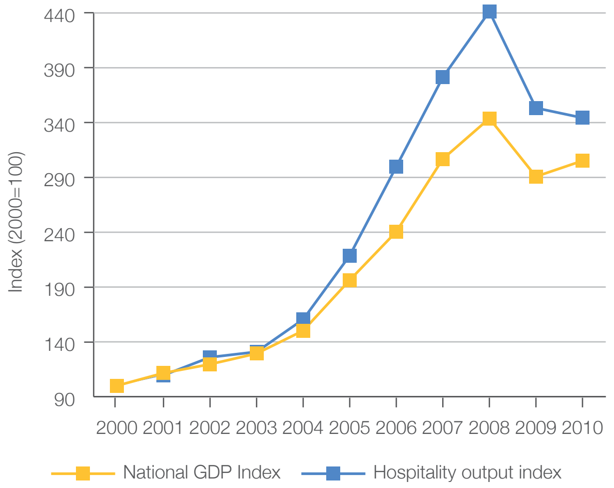
Economy Overview

The Romanian economy had the largest nominal average annual growth rate in GDP in Europe (12.5%) following rapid growth between 2004 and 2008 (23%). However this is tempered by high rates of inflation in the country over the period.

The Romanian economy entered into recession in 2009, due to the impact of the global economic downturn on exports and on domestic demand. GDP made a modest recovery in 2010 before an export led boost in 2011, with a 2.5% increase in GDP over the year.

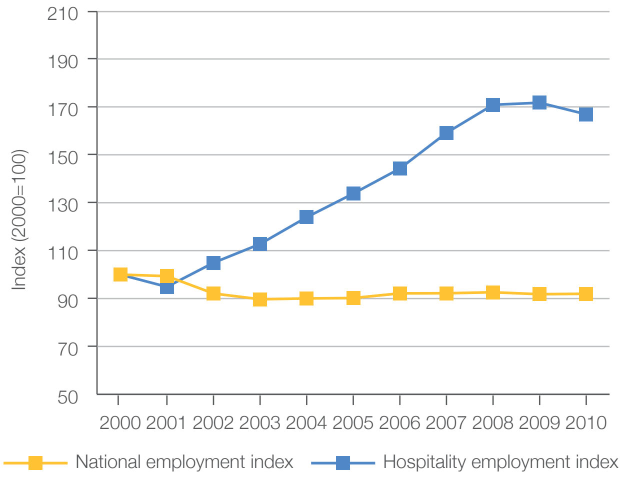
More recently, the recovery in Romania has slowed, with weak external demand as a result of the Eurozone crisis, and depressed domestic demand due to high levels of unemployment, and the impact of government austerity measures. In the short term, consumer demand is likely to remain weak, resulting in continued challenging trading conditions for the hospitality sector.

GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat

National and hospitality employment index, 2000-2010



Source: Eurostat

Romania has the largest nominal average growth rate in GDP in Europe (12.5%), with particularly high growth from 2004 (23%) to a peak in 2008. The hospitality sector followed a similar trend to GDP, experiencing an average annual growth rate of 14.5% across the period and 27.8% average annual growth rate between 2004 and 2008.

The decline in 2008 is driven by the global economic crisis, leading to weak external demand and suppressed household consumption.

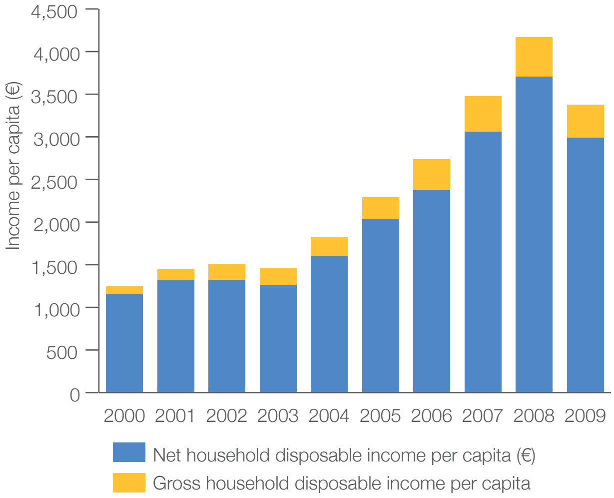
Inflation in Romania over the 2000 to 2010 period has grown at an average annual growth rate of 21.3%. Adjusting for inflation, average GDP growth over the period was -0.3%, and growth in the hospitality sector was 1.1%.

Over the period, employment in the hospitality sector grew at a much faster rate than employment in the economy as a whole, with employment in the sector growing by over 50%. In contrast, national employment in Romania declined in 2002 and remained relatively flat for the rest of the period.

Unemployment in Romania is currently high, with employment being negatively impacted by the recession and the austerity measures. Recent changes to the Labour Code increased flexibility in the labour market by sanctioning the use of short term contracts, creating more flexible working hours, and introducing the employer's right to shed excess labour.

The changes to the Labour Code are thought to have led to some increases in unemployment in the short term. However, as the economy recovers, more flexibility in the labour market should encourage managers to hire, thus boosting employment in the medium to long term.

Real Net and Gross disposable income per capita EUR, 2000-2009



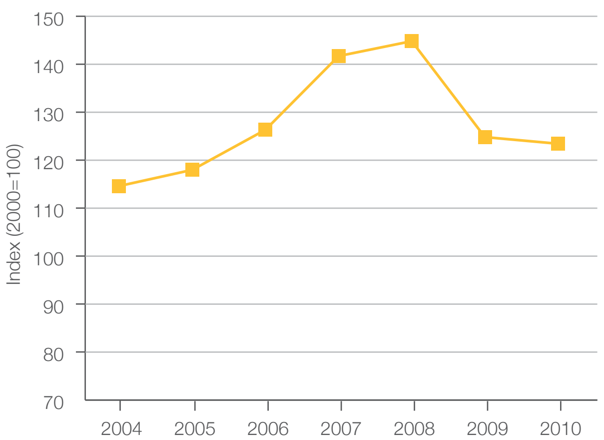
Source: Eurostat

Real net disposable incomes have grown significantly in Romania since 2000, reaching a peak of over €4,000 in 2008, following particularly high increases post 2004. A sharp decline in 2009 significantly undermined consumer spending power.

Consumer spending in the short term is likely to remain weak in Romania, due to tight credit conditions, high levels of unemployment and the impact of fiscal austerity measures on households and public sector jobs. The tax burden in Romania is relatively high, and has increased in recent years with a sharp increase in VAT in 2010.

A cap on public sector pay will also act to suppress income growth in the short term, given the importance of the public sector as an employer in Romania.

Tourism index, 2004-2010



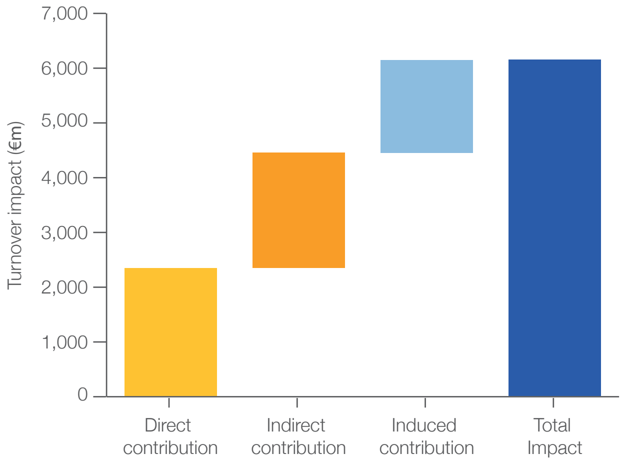
Source: Eurostat

Romania experienced fast growth in tourism from 2005 to 2008, which was mainly driven by its accession to the EU in 2007; entering the EU enabled Romania to gain European funding for agro-tourism and tourism infrastructure such as ski slopes, access roads and national heritage establishments. The fall in tourism in 2009 and 2010 (around 20% over the two years) reflects a wider trend across Europe and in new member states in particular.

Economic Contribution of the hospitality sector

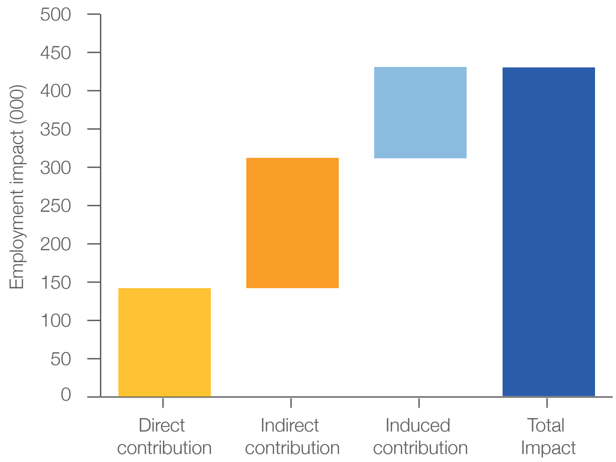
In 2010, the Romanian hospitality sector contributed turnover of €6.1bn to the economy, equivalent to approximately 4.9% of total output. This equates to €2.5bn of value added to the economy, or 2.1% of total GDP, and supports approximately 429,000 employees in total, almost 5% of the total workforce. For every €1 spent by the sector, an additional €1.63 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

Employment impact of the hospitality sector, 2010

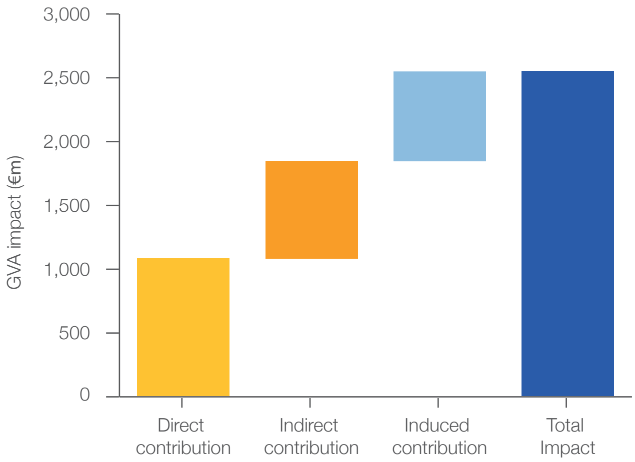


Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector was €6.1bn in 2010, which is equivalent to 4.9% of output. This is one of the lowest proportions in Europe.

The indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') in Romania is 1.90, so for every €1 spent by the sector, an additional €0.90 is spent in the supply chain. The indirect multiplier is relatively high in Romania, suggesting that the hospitality sector uses a high proportion of domestically sourced inputs in its supply chain.

GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

The Romanian hospitality sector generates a total of €2.5bn in value added for the Romanian economy, which is equivalent to 2.1% of GDP. Of this, approximately €1.07bn relates to the direct impact of the sector, with €1.4bn representing supply chain (indirect) and consumption (induced) impacts.

In 2010, the Romanian hospitality sector directly employed 141,000 individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to Romanian employment is an estimated 429,000 jobs. This is equivalent to almost 5% of total Romanian employment.

Regulation / Taxation

The Romanian hospitality sector is currently subject to the standard rate of VAT in Romania (24%), which was increased from 19% in 2010, significantly impacting prices in the hospitality sector as well as consumers' wider purchasing power. A reduced rate of 9% is applied to accommodation. Excise duties are applied to beer and spirits, whilst wine is zero rated.

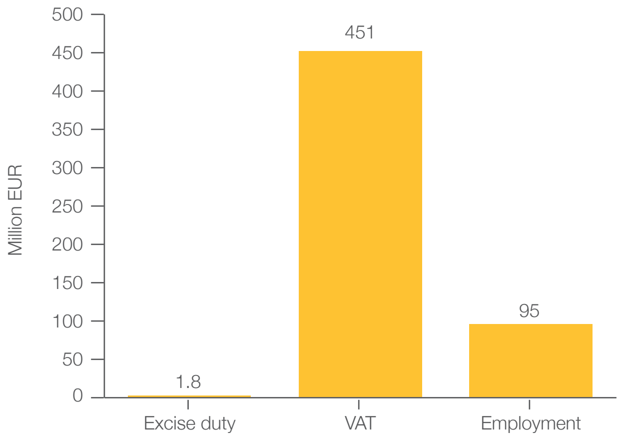
In Romania, a tourist accommodation tax exists for tourists aged 18 and over. The tax ranges from 0.5% to 5% of the room rate, and is decided by each municipality, regardless of hotel grade. From 1 January 2012, these taxes became more standardised across municipalities. Following a new regulation in Romania's Fiscal code, the hotel tax was to be equalised nationally, to a rate of 1% for the whole country.

Tax Receipts

The Romanian hospitality sector is estimated to have contributed €548m to the Exchequer in 2010 from excise duty, VAT and income tax and employee related contributions.

Of this, €451m was raised in gross VAT receipts (deducted VAT has not been accounted for).

Tax receipts, by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, these raised an estimated €95m in revenue in 2010.

Excise Duty

There were no changes in excise duty on alcohol between 2008 and 2012. In 2013, duty on beer increased by 10% to €0.82 per °Plato / hl. Duty applied to spirits is €750 / hl pure alcohol whilst wine remains zero rated.

Any rise in beer duty has a larger impact upon the bar and café sub-sectors which sell a higher proportion of beer than wine or spirits.

VAT and Reduced rates

Between 2000 and 2009, the standard rate of VAT in Romania was 19%. This rose by 5 percentage points to 24% in 2010 as part of a series of government austerity measures, aimed at curbing the country's deficit and guaranteeing an IMF loan.

Romania also has a reduced rate of 9% which was introduced in 2008 and only applies to hotels in the hospitality sector.

Other taxes

In Romania, a tourist accommodation tax exists for tourists aged 18 and over.

The tax ranges from 0.5% to 5%, and is decided by each municipality, regardless of hotel grade. In general, city municipalities charge a levy per night and resort municipalities levy the tax on the first night only. In 2011, Bucharest scrapped its 3% tax in an attempt to stimulate the tourism industry. From 01 January 2012, the hotel tax situation in Romania changed, becoming standardised. Following a new regulation in Romania's Fiscal code, the hotel tax was to be equalised nationally, falling to 1% for the whole country.

In January 2010, the Romanian Government announced the possibility of introducing a tax that would apply to food high in fat, salt, sugar and additives. To date, the initiative has not yet been implemented.

Hospitality sector in focus

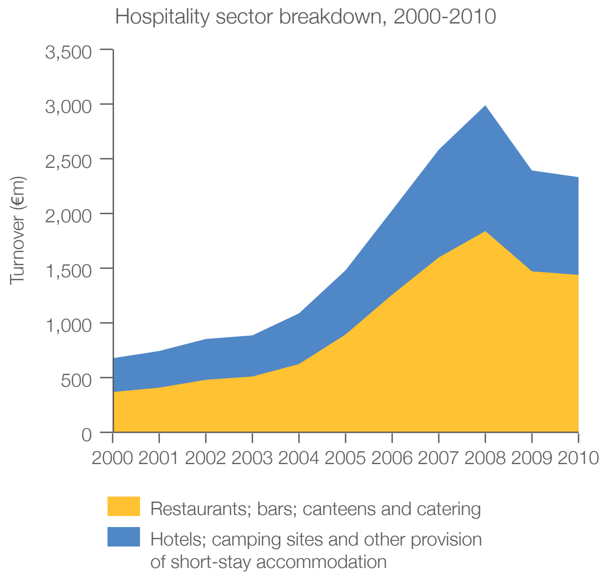
Over the period, turnover in the hospitality sector in Romania grew at an average annual growth rate of 14.5% (nominal). However this growth is offset by high rates of inflation over the period. The rapid growth of the sector, particularly before 2008, can be attributable to strong increases in disposable incomes and a heightened investment in tourism infrastructure following Romania's accession to the EU in 2007.

The hospitality sector grew to a peak of just under €3bn of turnover in 2008, followed by a 22% fall by the end of 2010, finishing the period at €2.3bn. Restaurants accounted for almost 40% of turnover in the sector, while employing 43% of the hospitality sector's workforce (over 60,700 in 2010). The number of restaurants was higher in 2010 (at 8,200) than in 2008 (8,000), showing a particular resilience to a corresponding fall in turnover of 9%.

Hotels are the second largest sub-sector in turnover terms, accounting for 31% of the total in 2010, and employing around 35,500 people. Bars have been particularly impacted by tax (increases in VAT) and regulatory changes (e.g. smoking ban), with a 7% reduction in enterprises in 2010 (net closure of over seven bars per week).

The trading environment in the hospitality sector has become more challenging since the peak in turnover in 2008, due to declining consumer confidence and spending power linked to broader macro-economic conditions in the country. Romania has seen a recent shift from on-trade to off-trade for beer sales, driven primarily by changing consumer trends, with only 12% of the urban population going out at least once a week. A sharp increase in VAT in 2010, has further suppressed individuals' purchasing power, which is likely to impact spending considered more discretionary, such as eating or drinking out.

Turnover in the hospitality sector

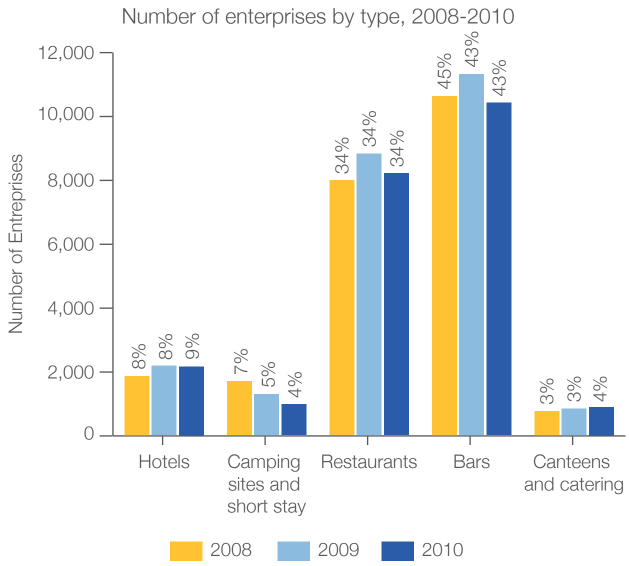


Source: Eurostat

The hospitality sector peaked in 2008, with turnover of almost €3bn, and finished 2010 with turnover of just over €2.3bn (a fall of 22% across the two years).

Since 2000, the food and beverage sub-sector has increased its share of the hospitality sector from 54% to 62% (2010). This is owing to higher average growth across the period (16.1%) than the accommodation sub-sector (12.3%).

Enterprises in the hospitality sector



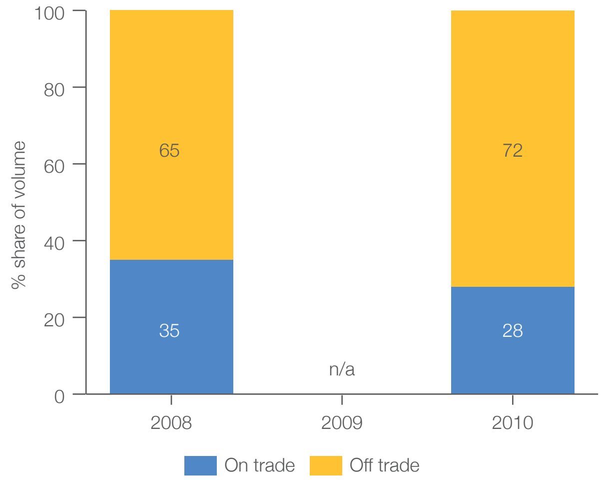
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Bars make up the majority of enterprises in the hospitality sector in Romania, representing 43% of the total in 2010. Hotels represent a relatively small proportion of all enterprises in Romania, with only 9% of all establishments. However the sub-sector makes the second largest contribution to turnover, accounting for 31% of hospitality sector turnover in 2010.

The number of restaurants was higher in 2010 (at 8,200) than in 2008 (8,000), showing a particular resilience to a corresponding fall in turnover of 19%.

On-trade vs. Off-trade



Source: The Brewers of Europe

There has been a significant recent shift from on-trade to off-trade for beer sales in Romania. Between 2008 and 2010, the proportion of on-trade sales has fallen by 7 percentage points.

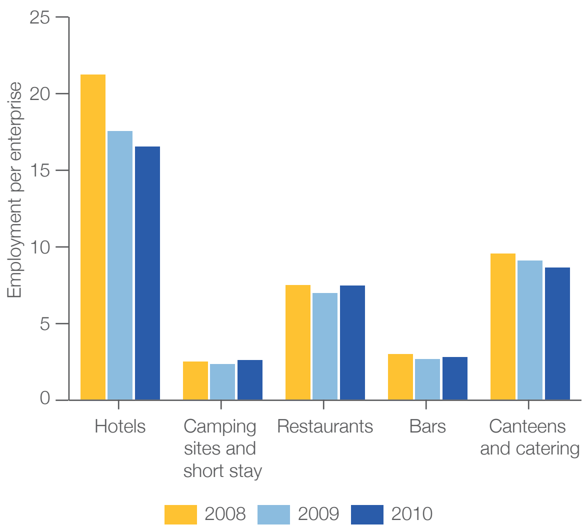
The economic crisis has led to lower disposable incomes for consumers. Consequently, consumers are downgrading to lower segments of products in the same category or shifting from on-trade to off-trade; only 12% of the urban population is going out at least once a week according to ISRA[1].

On top of this, the Romanian government introduced a smoking ban in 2009 that prohibits smoking in public areas including bars and restaurants, except if the bar is less than 100 square metres. In larger restaurants and bars it is mandatory to provide an area with special ventilation for smoking customers. The introduction of this regulation may have made the purchase of beer from on-trade establishments less attractive to consumers.

The impact of changing consumer demand and the introduction of the smoking ban in 2009 impacted the bar sub-sector in particular, with the turnover falling by 32% by the end of 2010.

Employment in the hospitality sector

Despite the relatively flat growth in the number of hotels operating between 2008 and 2010, employment per enterprise in hotels fell by 22% from 21.2 in 2008 to 16.5 in 2010. This suggests that, post-economic crisis, hotels are remaining open but cutting down on costs by employing fewer individuals. The other sub-sectors of the hospitality sector continued to employ similar numbers of individuals between 2008 and 2010.



Source: Eurostat

Enterprise Focus

BARS

Romania has an established bar culture, with over 10,000 enterprises operating in 2010, generating a total of €382m in revenue. In recent years, there has been a shift away from on-trade sales of beers, driven by a decrease in consumers' income following the economic crisis. On top of this, smoking bans and local restrictions have discouraged consumers from drinking outside of the home.

Consumers in Romania are becoming increasingly sophisticated, demanding more from the bars they visit, particularly when they have less disposable income to spend. In addition, the ageing population means a higher proportion of consumers are less likely to visit bars and nightclubs than in previous years. It is therefore necessary for the sub-sector to respond to these changing tastes.

Reflecting the trends highlighted above, in 2010 there was a net closure of seven bars a week.

With a difficult financial market, establishments are experiencing limited access to loans for investment which may hamper growth, although there has been a recent increase in foreign investment, suggesting a more positive outlook for the sector in the medium term.

1 Regional Centre for Road Traffic Safety, Romania

RESTAURANTS

In Romania, restaurants contribute almost 40% of turnover in the sector, while employing 43% of the hospitality sector's workforce (60,763 in 2010). The number of restaurant enterprises operating in Romania in 2009 was 8,800 before falling by 7% to 8,200 in 2010.

Turnover in the restaurant sub-sector also fell by approximately 19% between 2008 and 2010 to finish the period at €898m (41% of the total hospitality sector). Pressures on consumer spending and the 2010 increase in VAT may have contributed to this decline in performance.

Increases in the cost of inputs are likely to continue to put pressure on the profit margins of restaurant operators, with food inflation expected to continue to be relatively high. This restricts the ability of operators to absorb the increases in VAT through efficiencies in production.

HOTELS

Hotels are the second largest sub-sector in the hospitality sector in turnover terms, representing approximately 31% of hospitality sector turnover in Romania. The number of hotels enterprises in Romania has increased since 2008, rising from 1,850 to over 2,000 in 2010. However this has been coupled with a significant decline in turnover over the same period, with hotel revenues dropping by around 25% to finish the period at €730m.

Despite the decline in performance since 2008, there have been some encouraging signs for the sub-sector going forward. International hotel chains have increased competition and the standard of hotels in the local Romanian market, driving growth and innovation in the sub-sector. Romania has also secured European funding for agro-tourism and tourism infrastructure such as ski slopes and access roads, which will increase the demand for hotels in newly accessible locations.

Slovakia

Slovakia

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**12.4%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**15.6%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€2.8bn** (4.2% of the total)
GDP	**€1.4bn** (2.1% of the total)
Employment	**94,000** (4.1% of the total)

Total tax contribution of hospitality	**€390m**
Excise	**€103m** (26.0% of the total)
VAT	**€209m** (54.0% of the total)
Employment	**€78m** (20.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.22** is spent in the wider economy.

Key Messages

- Between 2000 and 2010 the Slovakian hospitality sector became an increasingly important contributor to national GDP.
- Whilst the economy as a whole stagnated in 2009, the hospitality sector continued to grow, largely as a result of an expansion in the number of restaurants.
- The lack of any reduced rate of VAT for accommodation is unusual in Europe and may act as a barrier to Slovakian competitiveness for tourists in the region.

Summary

Over the last 10 years, the Slovakian economy has grown at the second fastest nominal rate in Europe (12.4% average annual rate). Despite relatively rapid growth in GDP, national employment grew by just over 1% per annum. Tourism in Slovakia has followed a volatile growth path since 2003. The fall in tourism from 2009 onwards may be related to the transition in currency from SKK to EUR which has led to a decrease in the number of visitors from non-Euro countries like Poland.

The hospitality sector in Slovakia has experienced rapid growth over the 2000 to 2010 period (15.6% per annum) but still represents a relatively small proportion of the total economy. A spike in turnover in 2009-10 was driven by a boom in the number of bars and restaurants opening: the number of restaurants increased by almost 600% and bars by over 700%. After the recent growth in restaurants and bars, hotels experienced a declining share of the hospitality sector, from 32% in 2008 to 18% in 2010.

Demand for hospitality services is sensitive to prices, which include taxes such as VAT and excise duty. Slovakia introduced a flat tax of 19% in 2004, which applied to incomes of corporations and individuals and was the standard rate of VAT (until the standard rate of VAT was increased to 20% in 2011). The absence of any reduced rate of VAT in Slovakia may provide an opportunity for the Slovakian government, which could help to improve the competitiveness of the sector against other regional destinations (where reduced rates apply).

Beer and spirits sold in Slovakia are also subject to excise duty, whilst wine is zero rated. A city tax, sometimes known as a tourist tax, also applies to individuals staying in hotels and ranges from €0.50 to €1.65 per person per night.

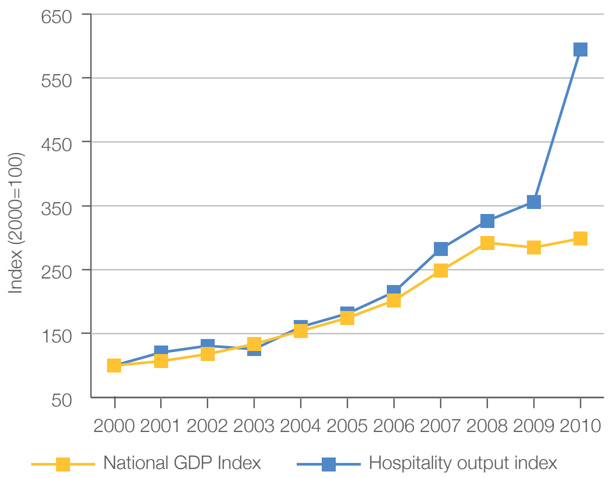
The total turnover supported by the Slovakian hospitality sector was €2.8bn in 2010. The Slovakian hospitality sector has a total value-added to GDP of €1.4bn, 2.1% of the total. In total 94,000 jobs were supported by the sector in 2010, representing 4.1% of the workforce.

Economy Overview

Between 2000 and 2010, the Slovakian economy grew at the second fastest nominal rate in Europe, at an average rate of 12.4% per annum. Despite relatively rapid growth in GDP, national employment grew by only 1% per annum, suggesting a consistent growth in the value-add per employee during the period. This can be seen in the significant rise in household incomes throughout the period, enhancing individuals' purchasing power and generating further economic activity.

The fall in tourism from 2009 onwards may be related to the transition in currency from SKK to EUR which has led to a decrease in the number of visitors from traditional, non-Euro markets like Poland.

GDP and hospitality turnover index, 2000 - 2010

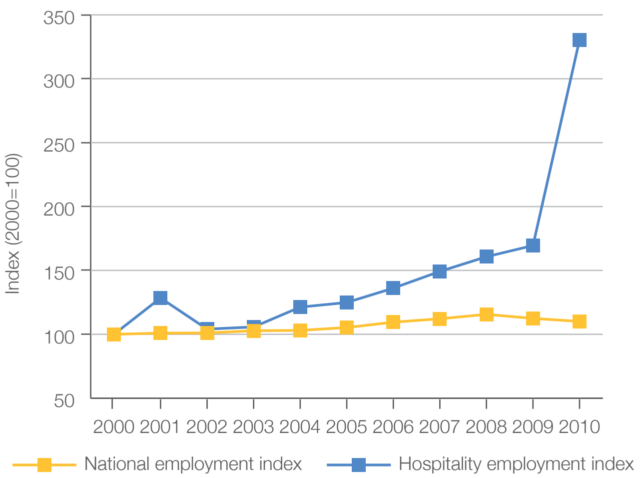


Source: Eurostat

Slovakia had the second highest average GDP growth rate in Europe (12.4% per annum). The hospitality sector grew at an even faster rate of 15.6%. After the economic crisis in 2007 and 2008, GDP growth flattened while hospitality increased by a significant 67% between 2009 and 2010.

Inflation in Slovakia over the 2000 to 2010 period grew at an average annual growth rate of 4.4%. Adjusting for inflation, average GDP growth over the period was 8%, and growth in the hospitality sector was 11.2%. In real terms, Slovakia experienced the highest economic growth in Europe.

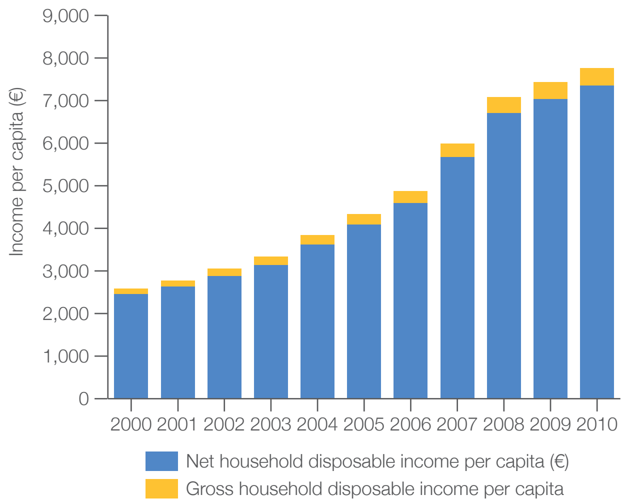
National and hospitality employment index, 2000-2010



Source: Eurostat

Over the decade spanning 2000 to 2010, national employment in Slovakia grew by just over 1.0% per annum. Employment in the hospitality sector followed a very different growth path: falling in 2002 followed by growth of over 7% between 2002 and 2009 and even higher year on year growth in 2009-10. In consistently outperforming the economy as a whole, the hospitality sector has become an ever more important employer in the country.

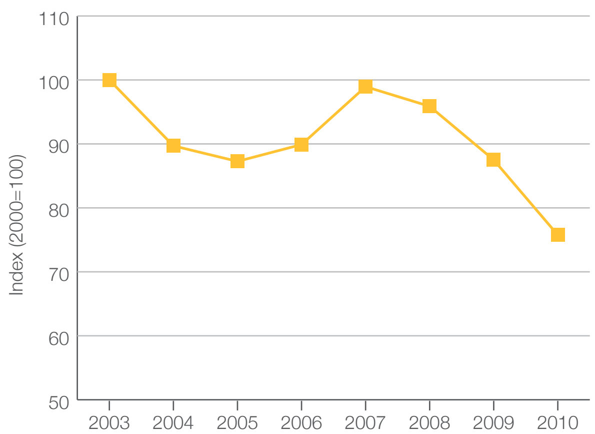
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

In real terms, net disposable income in Slovakia almost tripled across the period to peak in 2010 at around €7,400 per capita.

Tourism index, 2003-2010



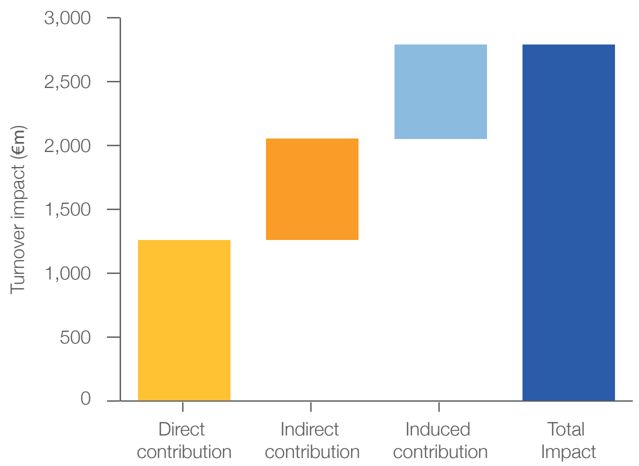
Source: Eurostat

Tourism in Slovakia showed signs of encouragement between 2005 and 2007 but has since suffered a constant decline. The fall in tourism from 2009 onwards may be related to the transition in currency from SKK to EUR which has led to a decrease in the number of visitors from traditional non-Euro countries like Poland.

Economic Contribution of the hospitality sector

The total turnover supported by the Slovakian hospitality sector was €2.8bn in 2010. For every €1 spent by the sector, an additional €1.22 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). The Slovakian hospitality sector has a total value-added to GDP of €1.4bn, 2.1% of the total. 53,000 individuals are employed directly by the hospitality sector in Slovakia and a further 16,000 are employed in the supply chain. In total 94,000 jobs were supported by the sector in 2010, representing 4.1% of the workforce.

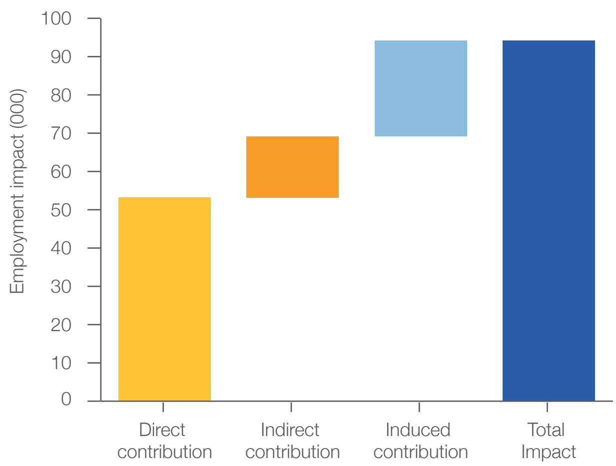
Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

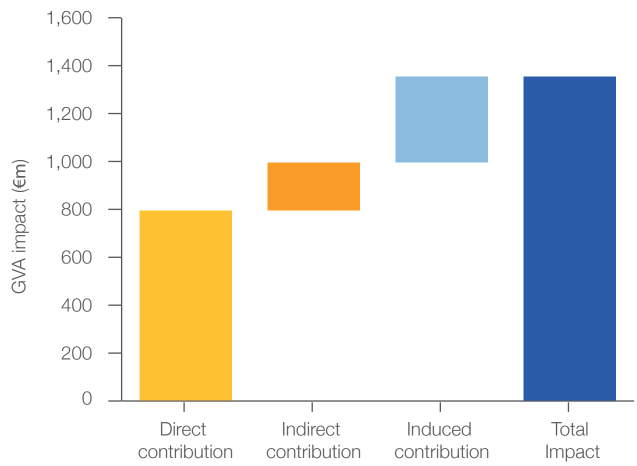
Slovakia's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.63, so for every €1 spent by the sector, an additional €0.63 is spent in the supply chain. The total turnover supported by the sector in 2010 was €2.8bn.

GDP impact of hospitality sector, 2010



The total contribution to GDP in 2010 was €1.4bn, 2.1% of the total.

Employment impact of the hospitality sector, 2010



The Slovakian hospitality sector directly employs 53,000 individuals and it has a low indirect employment multiplier (1.31) so only a further 16,000 are employed in the supply chain. The induced contribution is relatively large, with a further 25,000 jobs supported.

Regulation / Taxation

Slovakia introduced a flat tax of 19% in 2004 which applies to incomes of corporations and individuals. The standard rate of VAT applies to the entire hospitality sector, and rose by 1 percentage point in 2011 to 20%.

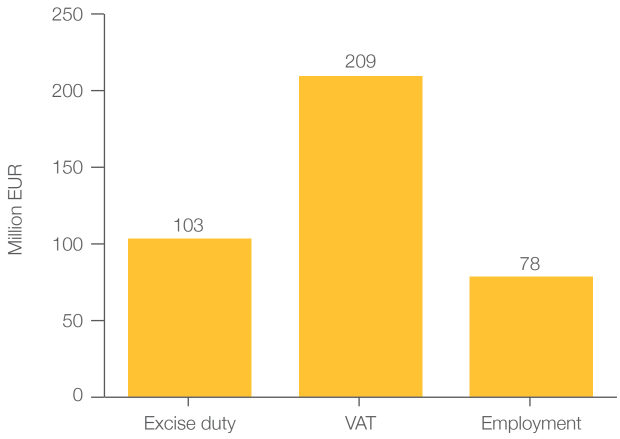
Beer and spirits sold in Slovakia are also subject to excise duty, whilst wine is zero rated. Duty on beer and spirits has been raised a number of times since 2008. In Slovakia, a city tax, sometimes known as a tourist tax, applies to individuals staying in hotels. It currently ranges from €0.50 to €1.65 per person per night, varying depending on regulations in each municipality.

Tax Receipts

The hospitality sector in Slovakia is estimated to have contributed 390m to the Exchequer in 2010 from excise duty, VAT and income tax and employment related contributions.

Of this, €103m was raised in excise duties arising from the sales of alcoholic beverages in the hospitality sector and €209m raised from gross VAT receipts (VAT deductions are not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, these are estimated at €78m in 2010.

Excise Duty

There have been a number of changes in excise duty applied to beer and spirits since 2008, whilst wine has remained zero rated. The most recent increase in beer duty in 2012 set a rate of €3.59 per °Plato / hl. The rate applied to spirits is €1,080 / hl pure alcohol.

VAT and Reduced rates

In 2011, the standard VAT rate in Slovakia was increased from 19% to 20% and is applied to all sub-sectors of the hospitality sector. Slovakia is one of only four countries not to apply a reduced VAT rate to accommodation.

Other taxes

In Slovakia, a city tax, sometimes known as a tourist tax, applies to individuals staying in hotels. It currently ranges from €0.50 to €1.65 per person per night, varying depending on regulations in the relevant municipality.

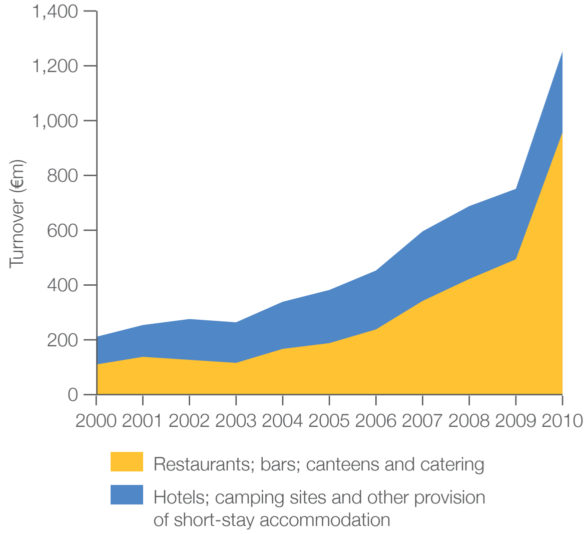
Hospitality sector in focus

The hospitality sector in Slovakia has experienced rapid growth over the 2000 to 2010 period (15.6% per annum) but still represents a relatively small proportion of the total economy. A spike in turnover in 2009-10 was driven by a boom in the number of bars and restaurants opening: the number of restaurants increased by almost 600% and bars by over 700%. After the recent growth in restaurants and bars, hotels experienced a declining share of the hospitality sector, from 32% in 2008 to 18% in 2010.

Since 2004, there has been a smoking ban in Slovakia in indoor places. However, smoke-free zones are only mandatory in establishments serving food, making bars exempt.

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010

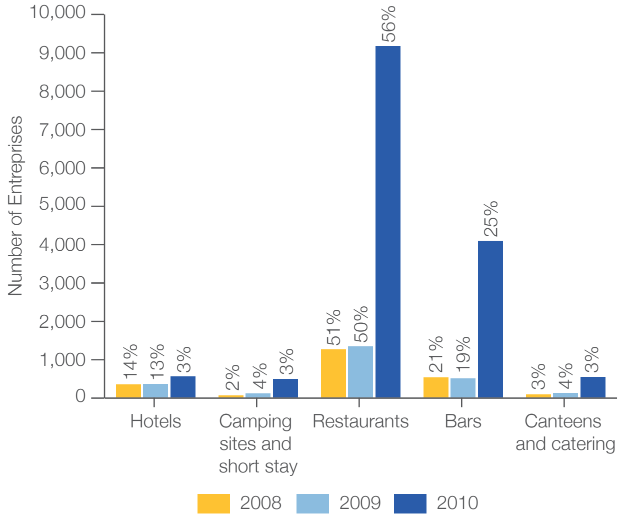


Source: Eurostat

Between 2000 and 2010, the hospitality sector grew at an average rate of 15.6% per annum to total €1.25bn by the end of the period. The spike in turnover in 2009-10 was driven by a boom in the number of bars and restaurants opening in Slovakia

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



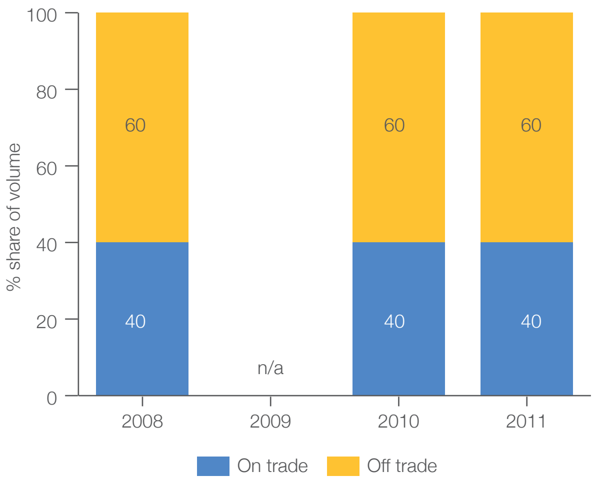
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

In 2009, only 1,930 restaurants were open, but this rose by 591% to 9,152 in 2010. Similarly, the number of bars in Slovakia increased dramatically, from 489 in 2009 to 4,072 in 2010.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011



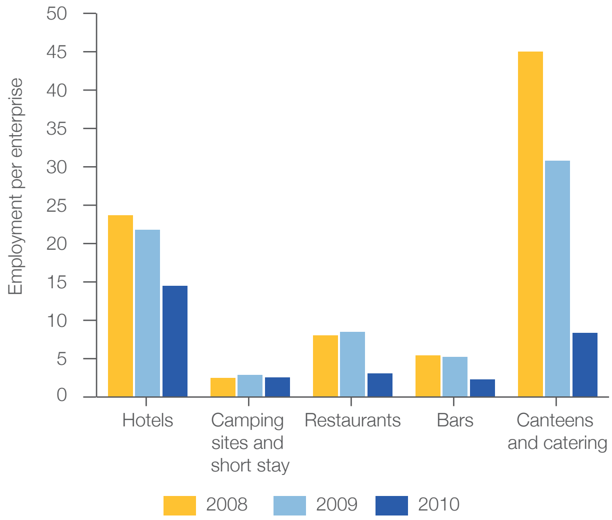
Source: The Brewers of Europe

Between 2008 and 2011, there was no change in the proportion of sales (by volume) which is sourced from on-trade or off-trade.

Employment in the hospitality sector

Total employment in the hospitality sector grew from 16,000 in 2000 to over 52,000 in 2010, highlighting the sectors' growing influence in the wider economy. The majority of this growth, as with enterprises, has come from the bar and restaurant sectors.

Employment per enterprise, 2008-2010



Source: Eurostat

In general, employment per enterprise has fallen across all sub-sectors in the hospitality sector. Canteens and catering saw the greatest fall between 2008 and 2010, from 45 employees per enterprise down to just 8 employees. Hotels experienced an average decrease of 10 employees per enterprise in the period while bars saw a 50% cut in employees per enterprise.

Enterprise Focus

BARS

In 2008 and 2009, bars represented 10% of turnover in the hospitality sector. This increased to 15% in 2010 following a sharp increase in the number of bars operating in Slovakia.

Between 2008 and 2010, off-trade sales of beer have remained at 60%. The off-trade may have been able to absorb much of the alcohol tax increases, such as the 100% increase in excise duty on beer in 2003, leading to a widening price differential between the off-trade and the hospitality sector.

In the future, the Slovakian bar sub-sector needs to ensure it keeps up with innovations and quality reflected in other countries in the EU. On top of this, digital communication has become more prevalent across the last decade, and bars and nightclubs could use digital channels for marketing purposes.

RESTAURANTS

In 2009, around 1,240 restaurants were operating in Slovakia. This increased by 591% in 2010 to 9,152 with restaurants contributing to over 50% of hospitality revenue.

Currently, no part of the hospitality sector is subject to reduced VAT rates. However, there is a possibility that in the future food services become subject to a reduced VAT rate, particularly due to increasing competition from other countries within Europe. Greater variety and culture may also lead to an expansion in the restaurant sub-sector, for example, the introduction of new cuisines.

HOTELS

Hotels have experienced a declining share of the hospitality sector from 32% in 2008 to 18% in 2010 after the recent growth in restaurants and bars. On top of this, there has been a recent decline in employment per hotel, with 10 fewer employees per hotel in 2010 compared to 2008.

One of the main challenges facing the hotel sub-sector, now and in the future, is occupancy rates. To ensure these are high, the sub-sector needs to ensure the level and quality of services provided are to a high enough standard to compete with multinational chains.

At the present time, accommodation services in Slovakia are subject to the standard rate of VAT, unlike many countries in the EU which benefit from reduced rates. This is a potential opportunity for the Slovakian government, which could accrue benefits such as increased employment and increased competition with neighbouring countries if they choose to introduce a reduced rate of VAT for hotels.

On top of this, digital communication has become more prevalent across the last decade, and the hotel sub-sector could use digital channels for booking and marketing purposes.

Slovenia

Slovenia

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**5.2%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**6.8%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€2.9bn** (8.1% of the total)
GVA	**€1.3bn** (3.7% of the total)
Employment	**61,000** (6.5% of the total)
Total tax contribution of hospitality	**€446m**
Excise	**€54m** (12.0% of the total)
VAT	**€244m** (55.0% of the total)
Employment	**€148m** (33.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.96** is spent in the wider economy.

Key Messages

- The hospitality sector grew significantly following accession to the EU, with turnover and employment growth significantly above that of the economy as a whole.
- Despite a 9% contraction in the wider economy in 2009, the hospitality sector has proven to be resilient, with the number of enterprises continuing to grow (generating investment and employment).
- In recent years disposable income growth has slowed, placing pressure on consumer spending. Alongside regular increases in excise duties, this could place further pressure on the on-trade.

Summary

The 2000 to 2010 period is characterised by continuous growth in GDP and incomes through to a peak in 2008 (GDP grew at an average rate of nearly 10% per annum), before the wider economic downturn pulled Slovenia into recession in 2009.

Across the whole 2000 to 2010 period GDP grew at an average rate of 5.2%, with the hospitality sector becoming an increasingly important contributor to overall performance, with average growth of 6.8% per annum across the same period. Growth in the hospitality sector diverged from the wider economy in 2004, following accession to the EU (and the resulting stimulus to tourism) and growth in disposable incomes (which grew at 4.6% per annum).

Demand in the hospitality sector is sensitive to prices, which can be impacted by taxes such as VAT and excise duty. In Slovenia, the hospitality sector is subject to the standard rate of VAT (20%) and a reduced VAT rate of 8.5%, which is levied on hotels and food served in restaurants, bars and cafés. Beer and spirits are subject to excise duty, whilst wine is zero rated.

Despite a fall in hospitality turnover from 2008, all sub-sectors in the hospitality sector in Slovenia saw growth in the number of enterprises operating in the last three years of the decade (to reach a peak of 8,300 in 2010). Restaurants accounted for the majority of growth in enterprises, with an additional 280 opening in the two years since 2008. In total they represent 46% of all enterprises, with bars representing a further 38% in 2010.

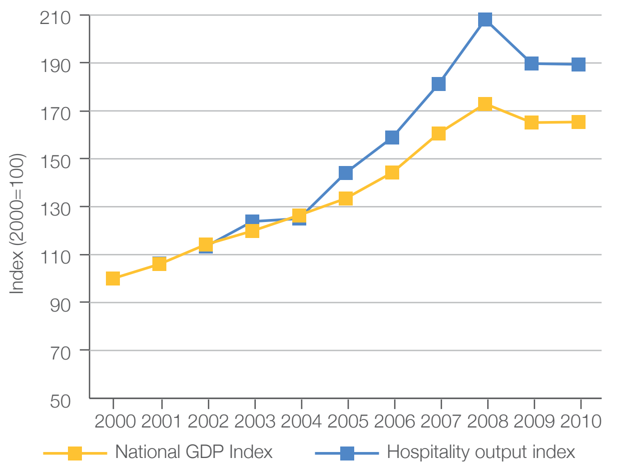
The total turnover supported by the Slovenian hospitality sector in 2010 was €2.9bn, with a total value-added to GDP of €1.3bn, 3.7% of the total. The sector supported a total of 61,200 jobs in 2010, 6.5% of the total workforce.

Economy Overview

The 2000 to 2010 period is characterised by continuous growth in GDP and incomes through to a peak in 2008 (GDP grew at an average rate of nearly 10% per annum), before the wider economic downturn pulled Slovenia into recession in 2009 (with a contraction of 9% in one year).

Across the whole 2000 to 2010 period GDP grew at an average rate of 5.2%, with the hospitality sector becoming an increasingly important contributor to overall performance, with average growth of 6.8% per annum across the same period. Growth in the hospitality sector diverged from the wider economy in 2004, following accession to the EU and growth in disposable incomes (which grew at 4.6% per annum).

GDP and hospitality turnover index, 2000 - 2010

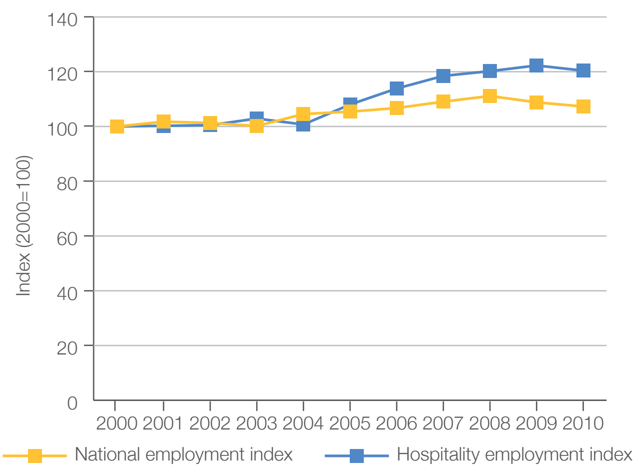


Source: Eurostat

Over the period, GDP grew at a compounded nominal annual rate of 5.2%. Hospitality growth outstripped this, with compounded growth of 6.8% across the decade. Both GDP and hospitality turnover peaked in 2008 before flattening out in 2009 and 2010 following the economic crisis.

Inflation in Slovenia over the 2000 to 2010 period has grown at a compound annual growth rate of 4.2%. Adjusting for inflation, average GDP growth over the period was 1.0%, and growth in the hospitality sector was 2.6%.

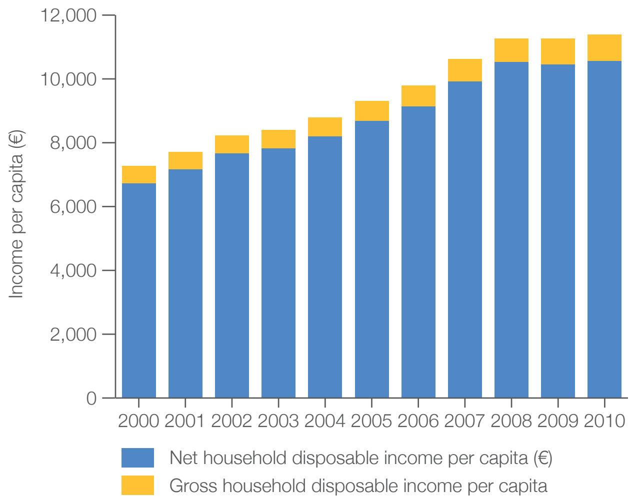
National and hospitality employment index, 2000-2010



Source: Eurostat

National employment in Slovenia saw little growth in the period in question (7%) compared to stronger growth in employment in the hospitality sector (19%). After Slovenia joined the EU in 2004, hospitality employment grew at a much faster rate (4.5%) before flattening out after the economic crisis in 2008-2009.

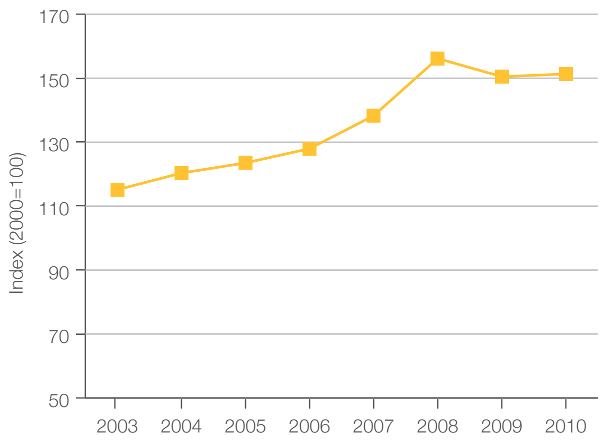
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Real net disposable income grew at an annual compounded rate of 4.6% over the period, in a similar fashion to GDP. The slight fall in real disposable income in 2009 is directly related to the global economic downturn

Tourism index, 2003-2010



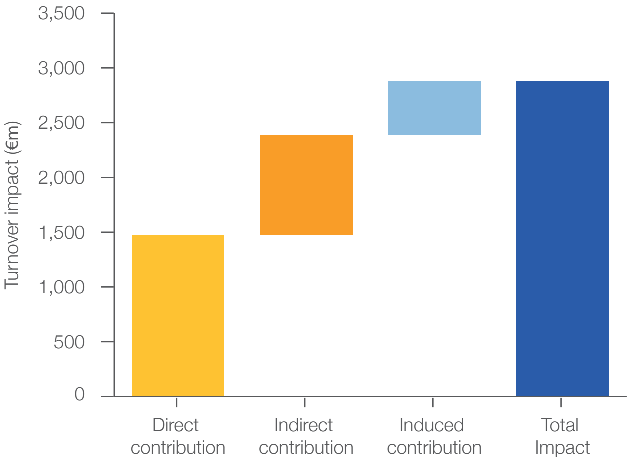
Source: Eurostat

Since 2003, Slovenia has experienced strong growth in tourism, with annual growth of around 6%. The sustained growth prior to 2008 was supported by Slovenia's accession to the EU in 2004, making it a more attractive and accessible country to visit for consumers from other EU countries.

Economic Contribution of the hospitality sector

The total turnover supported by the Slovenian hospitality sector in 2010 was €2.9bn. For every €1 spent by the sector, an additional €0.96 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). Slovenia's hospitality sector has a total value-added to GDP of €1.3bn, 3.7% of the total. The sector supported a total of 61,000 jobs in 2010, 6.5% of the total workforce.

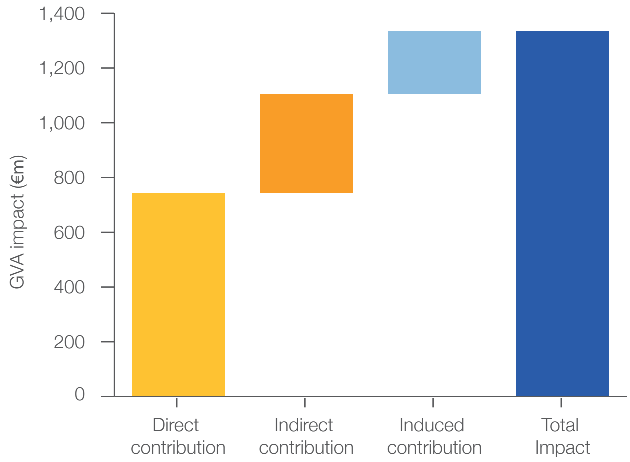
Turnover of the hospitality sector, 2010



Source: Eurostat, EY calculations

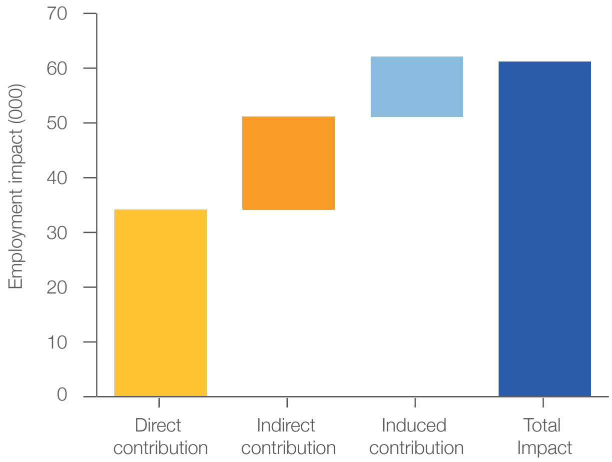
The total turnover supported by the hospitality sector in 2010 was €2.9bn. The indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') in Slovenia is 1.63, so for every €1 spent by the sector, an additional €0.63 is spent in the supply chain.

GDP impact of hospitality sector, 2010



The total value added to GDP in 2010 was €1.3bn, 3.7% of the total.

Employment impact of the hospitality sector, 2010



The Slovenian hospitality sector directly employed 34,000 individuals in 2010. 17,000 people were employed in the supply chain and a further 10,000 employees supported through the induced impacts.

Regulation / Taxation

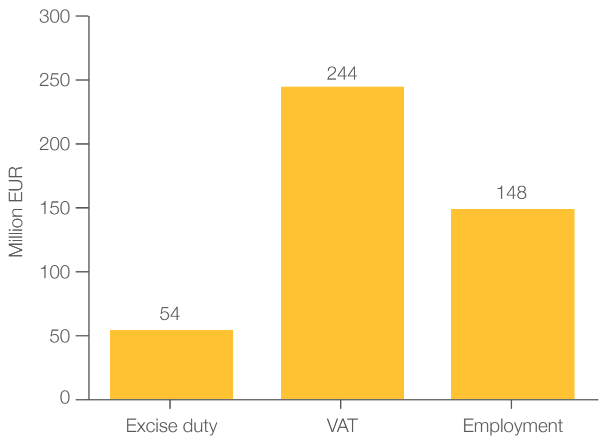
In Slovenia, the hospitality sector is subject to the standard rate of VAT of 20%, applied to all alcoholic and non-alcoholic beverages and the reduced VAT rate of 8.5%, levied on hotels and food served in restaurants, bars and cafés. Beer and spirits are also subject to excise duty, whilst wine is zero rated. Hotels in Slovenia are subject to a tourist tax levied on a per person per night basis. A tourist tax applies to hotel stays in Slovenia on a per person per night basis. Generally, it is a tax of between €0.60 and €1.25 per person per night, but it varies by location and hotel grade. No taxes on foods high in saturated fat or sugar are currently in place in Slovenia.

Tax Receipts

The Slovenian hospitality sector is estimated to have contributed €446m to the Exchequer in 2010 from excise duty, VAT and employee related contributions.

Of this, €54m was raised in excise duties arising from the sales of alcoholic beverages in the hospitality sector, and €244m from applicable VAT.

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, income taxes and employers and employees social security contributions raised €148m in revenue for the exchequer in 2010.

Excise Duty

Excise duties on beer and spirits have increased since 2009. The beer duty is currently €11 per % abv/hl and the spirits duty is set at €1,200/hl pure alcohol. Wine has remained zero rated.

VAT and Reduced rates

In Slovenia, the standard rate of VAT is 20% and applied to all alcoholic and non-alcoholic beverages sold in establishments in the hospitality sector. A reduced VAT rate of 8.5% applies to hotels and food served in restaurants, bars and cafés.

Other taxes

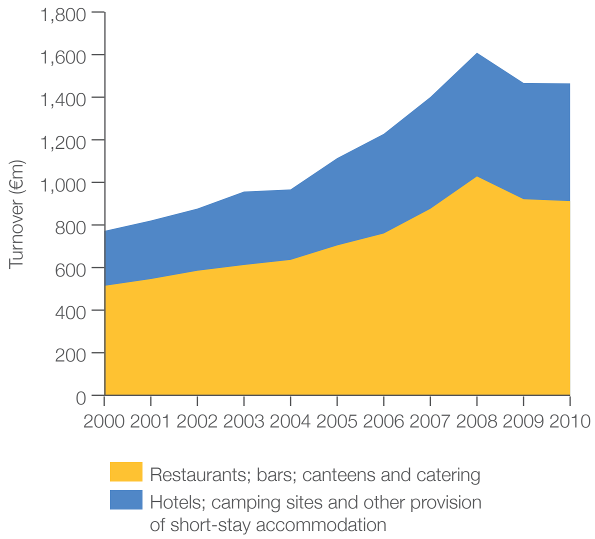
A tourist tax applies to hotel stays in Slovenia on a per person per night basis. Generally, it is a tax of between €0.60 and €1.25 per person per night, but it varies by location and hotel grade. For example, in Llubljana, a daily tourist tax of between €0.62 and €1.25 applies whereas in Vaneca, Fokovci, Vino and Moravske Toplice, the tax is €1.01 per person per night for adults. Some reductions and exemptions apply to children, but these vary by location.

Hospitality sector in focus

The hospitality sector grew at a rapid pace between 2004 and 2008, after Slovenia joined the EU. In those four years, turnover increased by an average of 11% per annum to peak at €1.6bn. Between 2000 and 2010, accommodation grew by 2 percentage points faster than food and beverage services. The share of sales of beer made in the hospitality sector has remained stable since 2006, at around 60%.

In 2007, the Slovenian National Assembly approved a law prohibiting smoking in all indoor public places. Bars are entitled to create smoking chambers, which must meet strict technical standards but not occupy more than 20% of an establishment. Due to the presence of these chambers, it appears that the smoking ban may have had little impact on the proportion of sales of beer made in the on-trade.

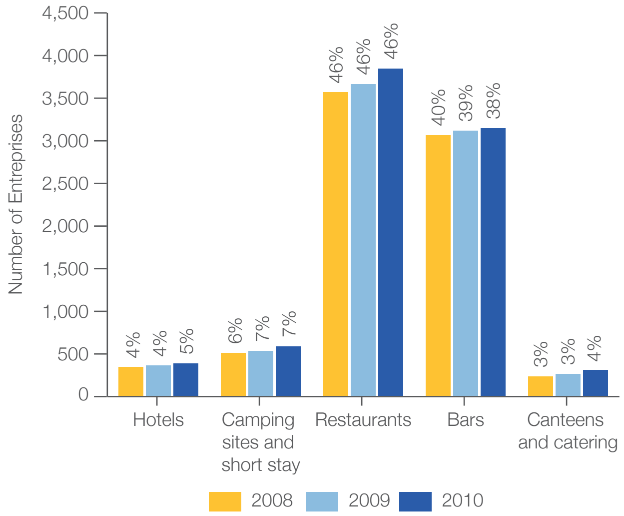
Turnover in the hospitality sector



Source: Eurostat

After joining the EU in 2004, the hospitality sector in Slovenia grew at an accelerated pace (11% per annum) to a peak in 2008, before declining in 2009 and 2010 after the economic downturn. Over the period, annual growth in accommodation turnover was 2 percentage points higher than in food and beverage services.

Enterprises in the hospitality sector



Source: Eurostat

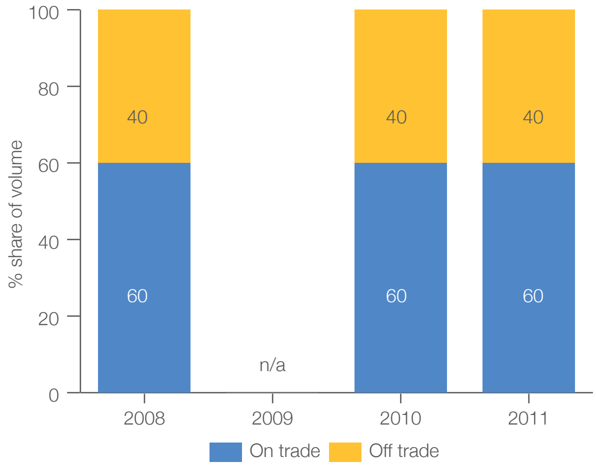
Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Despite a fall in hospitality turnover from 2008, all sub-sectors in the hospitality sector in Slovenia saw growth in the number of enterprises operating in the last three years of the decade (to reach a peak of 8,300 in 2010).

Restaurants accounted for the majority of growth in enterprises, with an additional 280 opening in the two years since 2008. In total they represent 46% of all enterprises, with bars representing a further 38% in 2010.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008, 2010, 2011



Source: The Brewers of Europe

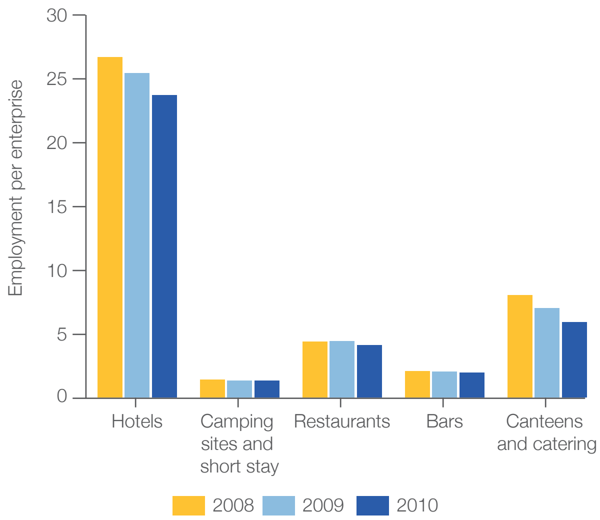
Historically, the on-trade in Slovenia has been relatively high, taking a 60% share of sales of beer. This share has been maintained since 2008, despite the economic crisis and pressure on disposable incomes.

This suggests that the on-trade has been able to absorb tax increases or increase the value of its service offering, to remain competitive with the off-trade.

Employment in the hospitality sector

Total employment in the hospitality sector grew to around 34,000 in 2009 before a modest reduction in 2010. Between 2000 and 2009, the sector created an additional 4,700 jobs (a 19% increase).

Employment per enterprise, 2008-2010



Source: Eurostat

In general, employment per enterprise has fallen across all sub-sectors in the hospitality sector. Canteens and catering saw the greatest percentage fall (-26%) while the number of employees per hotel fell by 11% from 26.6 to 23.6.

Enterprise Focus

BARS

Almost 4,000 bars were open in Slovenia in 2010, contributing 14% of turnover in the hospitality sector. Since 2008, the hospitality sector has maintained a large share of beer sales (60%) despite increases in excise duty in recent years.

In recent years, the Slovenian government has looked to changes in excise duty on alcoholic beverages to raise more government revenue and reduce the deficit. This trend could continue in the future, particularly if Slovenia is slow to recover from the crisis. So far, on-trade has not suffered from increases in excise duty, but it is possible that future price increases could begin to constrain demand or shift consumption towards the off-trade as we have seen elsewhere in Europe.

RESTAURANTS

Restaurants hold the largest market share of the hospitality sector in Slovenia, contributing 43% to turnover in the sector, while employing 46% of the sector's workforce in 2010. The number of restaurants operating in Slovenia increased from 3,558 in 2008 to 3,836 in 2010.

A considerable future risk would be for the reduced rate of VAT currently levied on restaurants and accommodation to be removed. This would increase VAT from 8% to 20% which would very likely have a significant impact on prices and demand.

HOTELS

In Slovenia, hotels are the second largest sub-sector of hospitality by contribution to turnover (33% in 2010) behind restaurants (43% in 2010). The number of hotels operating in Slovenia increased between 2008 and 2010, but employment per hotel fell by 11%.

Spain

Spain

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**5.2%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**3.8%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€132.6bn** (12.6% of the total)
GDP	**€66.5bn** (6.3% of the total)
Employment	**2.3m** (12.4% of the total)

Total tax contribution of hospitality	**€11.0bn**
Excise	**€0.8bn** (7.0% of the total)
VAT	**€4.3bn** (39.0% of the total)
Employment	**€6.0bn** (55.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.29** is spent in the wider economy.

Key Messages

- The Spanish hospitality sector is a significant contributor to the wider economy and helps to support over 12% of the whole workforce.
- Regular increases in VAT as a part of government austerity measures have further eroded consumer purchasing power, which coupled with rising unemployment, has placed the hospitality sector under increasing pressure.
- Whilst the sector faces challenges it remains resilient, with an increasing number of restaurants helping to stimulate demand and additional flexible employment.

Summary

Since 2000, nominal GDP and hospitality output have grown relatively strongly, averaging 5.2% and 3.8% per annum respectively. The decline in 2009 was linked to the global economic downturn and subsequent Euro-crisis, which has particularly impacted Spain's construction and tourist markets.

Prior to 2008, total employment in Spain grew by around 30% from 2000, with an equivalent growth in hospitality employment of 22%. The impact of the downturn on employment has been significant, particularly for young people. By the end of 2010 total employment in Spain had fallen by 9%, placing greater pressures on overall incomes and consumer spending. Whilst it experienced some job losses, the hospitality sector fared better, with a 3.8% fall.

The standard rate of VAT in Spain is currently 21%, increased from 16% to 18% in 2010 and by a further 3 percentage points in 2012. Given the dependence upon tourism and hospitality in general, Spain applies a reduced rate of VAT of 10% across all accommodation, food and beverages sold in the sector. As with the standard rate, the reduced rate has been subject to two increases in recent years: from 7% to 8% in 2010 and then to 10% in 2012.

Until the peak in 2008, the hospitality sector experienced 5.6% growth per annum. The decline in 2009 impacted turnover generated by accommodation providers (-10%) to a greater extent than food and beverages (-3%). Indeed, between 2008 and 2010 the number of restaurants in Spain actually increased by 5%. The biggest impact of the downturn has been on bars, with over 110 closing per week by the end of 2010.

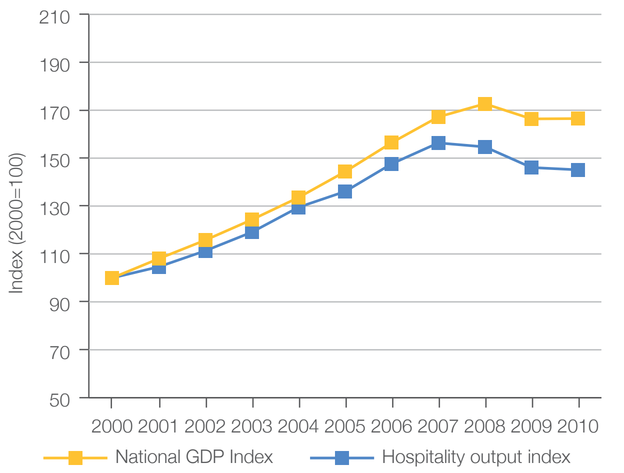
Changes in legislation for opening hours, the introduction of a smoking ban, falling domestic incomes and rising VAT and excise duties have all made the operating environment particularly tough for bar owners, especially given a wider fall in on-trade alcoholic beverages consumption and the increasing competition for tourists.

Economy Overview

Since 2000, nominal GDP and hospitality output have grown relatively strongly, averaging 5.2% and 3.8% per annum respectively. The decline in 2009 was linked to the global economic downturn and subsequent Euro-crisis, which has particularly impacted Spain's construction and tourist markets.

Prior to 2008, total employment in Spain grew by around 30% from 2000, with an equivalent growth in hospitality employment of 22%. The impact of the downturn on employment has been significant, particularly for young people. By the end of 2010 total employment in Spain had fallen by 9%, placing greater pressures on overall incomes and consumer spending. Whilst it experienced some job losses, the hospitality sector fared better, with a 3.8% fall.

GDP and hospitality turnover index, 2000 - 2010

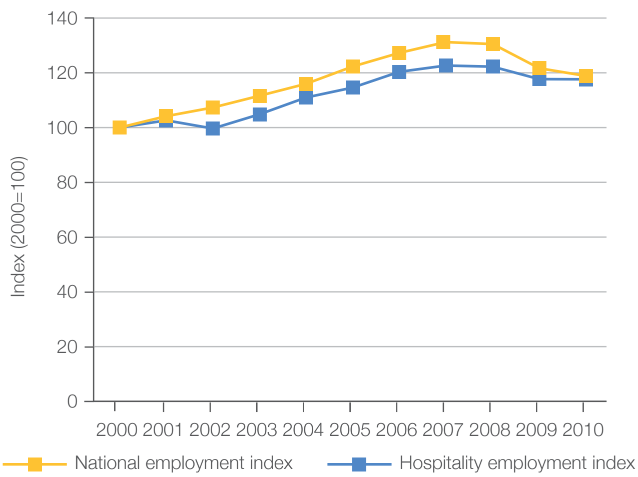


Source: Eurostat

Spain's nominal GDP and hospitality sector have been growing in tandem since 2000, towards peaks in 2007 and 2008 for hospitality and GDP respectively. The decline in 2008 and 2009 was linked to the global economic downturn, which resulted in 3.6% and 6.2% nominal falls between 2008 and 2010 in GDP and hospitality respectively.

Inflation in Spain over the 2000 to 2010 period has grown at an average annual growth rate of 2.8%. Adjusting for inflation, average GDP growth over the period was 2.4%, and growth in the hospitality sector was 1.0%.

National and hospitality employment index, 2000-2010

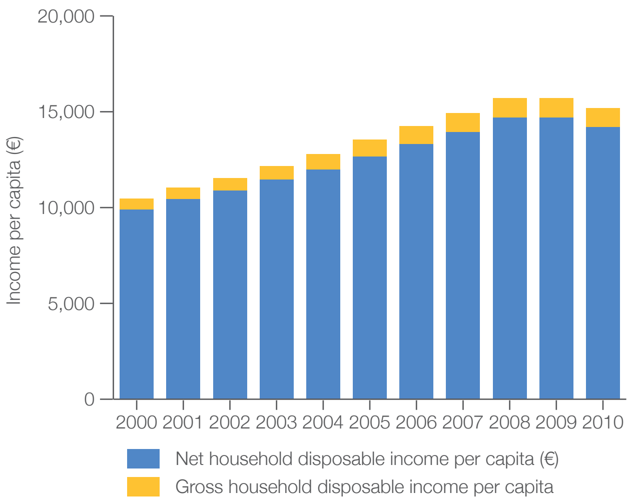


Source: Eurostat

Spain's national employment figures grew rapidly throughout the period shown, increasing by 30% in the eight years to 2008 and finishing the decade almost 20% up on 2000 levels.

Hospitality employment grew slightly less and achieved 22% growth to 2008. The economic downturn resulted in a fall in hospitality jobs, in line with the fall in hospitality turnover.

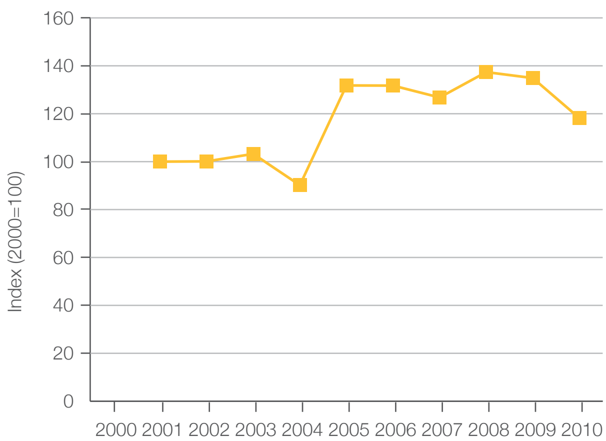
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Real net disposable income per capita in Spain has followed a similar path to GDP, growing at a healthy rate to 2008 before falling in 2009 and 2010. The economic downturn resulted in a significant fall in disposable income which is directly related to a fall in consumer spending in the economy.

Tourism index, 2000-2010



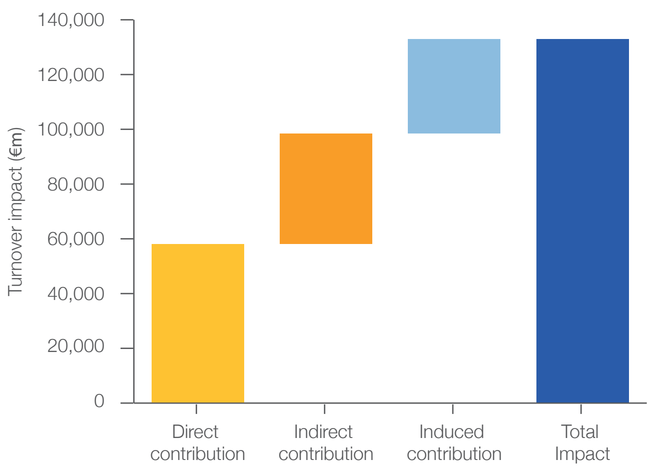
Source: Eurostat

Tourism in Spain has followed a volatile growth path since 2003, dipping in 2004 and 2007 and peaking in 2008. The fall in tourism in 2004 may be attributable to new countries joining the EU and becoming attractive substitutes for tourists to visit.

Economic Contribution of the hospitality sector

The total turnover supported by the Spanish hospitality sector is €132.6bn, 12.6% of output. The Spanish hospitality sector has a total value added of €66.5bn, or 6.3% of GDP. This is the fourth highest contribution to GDP in Europe. A total of 2.3m jobs were supported by the hospitality sector in 2010. For every €1 spent by the sector, an additional €1.29 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

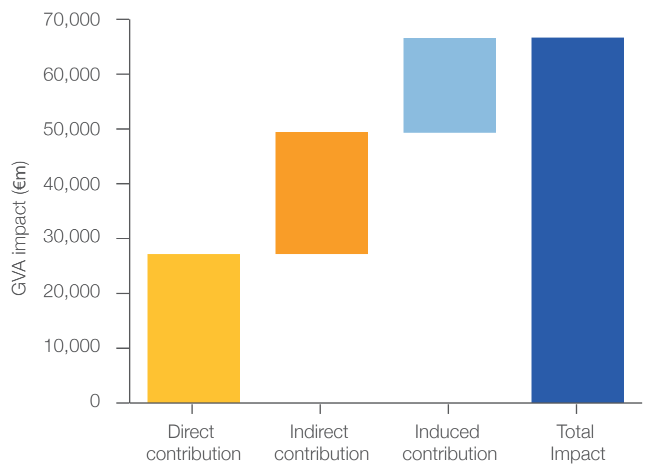


Source: Eurostat, EY calculations

The total turnover supported by the hospitality sector in 2010 was €132.6bn, 12.6% of total output.

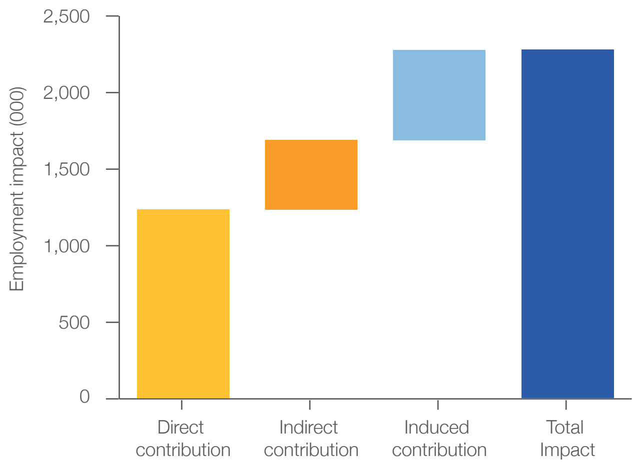
Spain's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.70, so for every €1 spent by the sector, an additional €0.70 is spent in the supply chain. This is the fourth highest contribution to total output in Europe

GDP impact of hospitality sector, 2010



The total value added to GDP in 2010 is estimated at €66.5bn, equivalent to 6.3% of the total.

Employment impact of the hospitality sector, 2010



Spain's hospitality sector directly employs 1.2m individuals with a further 454,000 employed in the supply chain. The induced contribution is relatively large, with a further 590,000 employed. In total, therefore, the sector supports 2.3m jobs, equivalent to 12.4% of the total workforce. This ranks as the 6th highest proportion of total jobs supported by hospitality sector in Europe.

Regulation / Taxation

The hospitality sector in Spain is subject to both VAT and excise duty. The standard rate of VAT in Spain is currently 21%, increased from 16% to 18% in 2010 and by a further 3 percentage points in 2012. Given the dependence upon tourism and hospitality in general, Spain applies a reduced rate of VAT of 10% across all accommodation, food and beverages sold in the sector. As with the standard rate, the reduced rate has been subject to increases in recent years, from 7% in 2010 to 10% in 2012.

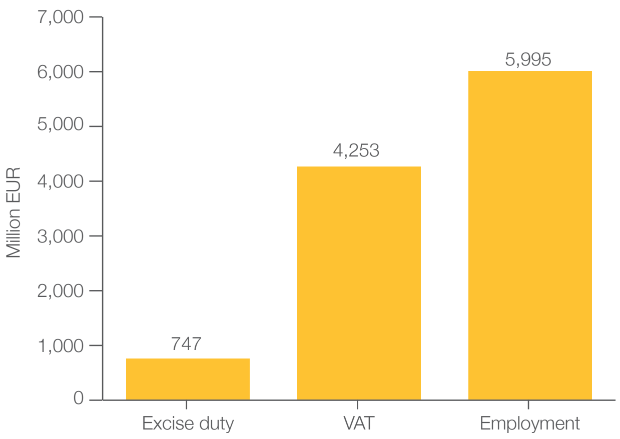
Excise duties are levied on beer and spirits sold in Spain, but not wine. From April 2012, all hotels in Cataluña were subject to a hotel tax of between €0.75 and €2.50 per person per night depending on location and hotel grade. This tax is levied on stays up to and including 7 nights, children under the age of 16 are exempt. At present, no other area in Spain is subject to hotel taxes.

Tax Receipts

The hospitality sector in Spain is estimated to have contributed around €11bn to the Exchequer in 2010 from excise duty, VAT and employment related taxes alone.

Of this, €747m was raised in excise duties arising from sales of alcoholic beverages in the hospitality sector. The Spanish government also collected €4.3bn in revenue raised in VAT.

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, income taxes and employers and employees social security contributions raised around €6.0bn in revenue for the Exchequer in 2010.

Excise Duty

There have been no changes in the excise duty applied to alcoholic beverages in recent years. Beer duty is €9.96 per hl; and duty applied to spirits was increased to €913.28 per hl of pure alcohol, from 1 July 2013. Wine is zero rated.

VAT and Reduced rates

In July 2010, the Spanish government increased both standard and reduced VAT rates to raise more revenue and help reduce the public deficit to 3% by 2013[1]. Standard VAT rates rose by two percentage points from 16% to 18% and reduced rates increased by one percentage point from 7% to 8%. Super-reduced rates remained unchanged at 4%.

In September 2012, the general and reduced VAT rates increased to 21% and 10% respectively, designed to further reduce the budget deficit by 2014.

The hospitality sector is subject to the reduced rate of VAT for all accommodation, food and beverage sales. Whilst this may mitigate the larger increases in standard VAT rates, it should be noted that consumers' overall purchasing power will be reduced where standard VAT is higher, which could reduce the amount they have to spend on hospitality in total.

Other taxes

From April 2012, all hotels in Cataluña were subject to a hotel tax of between €0.75 and €2.50 per person per night depending on location and hotel grade. This tax is levied on stays up to and including 7 nights, whilst children under the age of 16 are exempt. At present, no other area in Spain is subject to hotel taxes.

1 The European Commission is willing to give Spain another two years to bring its budget deficit back within the European Union ceiling of 3%. The new public deficit target by 2013 is approximately 6%.

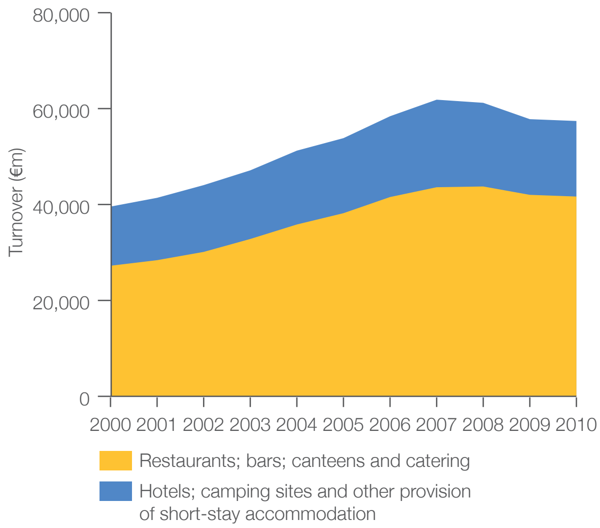
Hospitality sector in focus

Until the peak in 2008, the hospitality sector experienced 5.6% growth per annum. The decline in 2008, as a result of falling domestic incomes and international visitors impacted turnover generated by accommodation providers (-10%) to a greater extent than food and beverages (-3%). Indeed, between 2008 and 2010 the number of restaurants in Spain actually increased by 5%. The biggest impact of the downturn has been on bars, with over 110 closing per week by the end of 2010.

Changes in legislation for opening hours, the introduction of a smoking ban, falling domestic incomes and rising VAT and excise duties have all made the operating environment particularly tough for bar owners, especially given a wider fall in on-trade alcoholic beverages consumption and the increasing competition for tourists.

Turnover in the hospitality sector[1]

Hospitality sector breakdown, 2000-2010



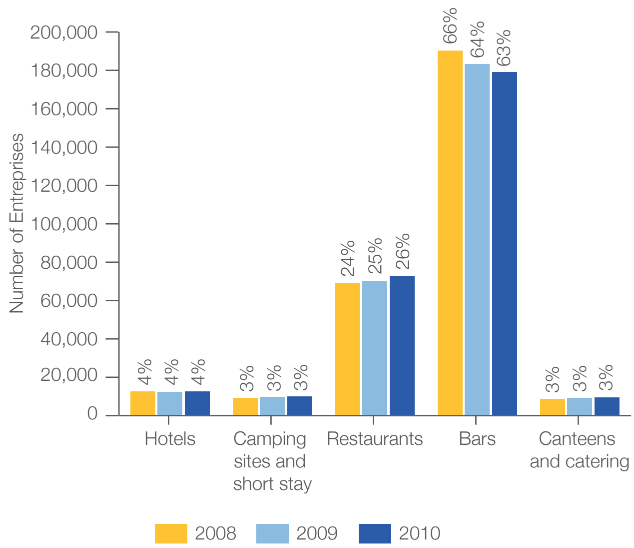
Source: Eurostat

Until the peak in 2008, the hospitality sector experienced growth of 5.6% per annum. This growth was primarily driven by strong growth in the food and beverage sub-sector (6.1% per annum), which contributes almost three quarters to the revenue in the hospitality sector. The decline in 2008 stemming from the economic crisis affected turnover generated by accommodation services (-10%) to a greater extent than food and beverages (-3%).

The reduction in revenue from 2008 onwards has, in some respects, been compounded by the subsequent Euro-crisis and resulting austerity measures. This has impacted domestic incomes as well as the demand from some of Spain's traditional visitor markets.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

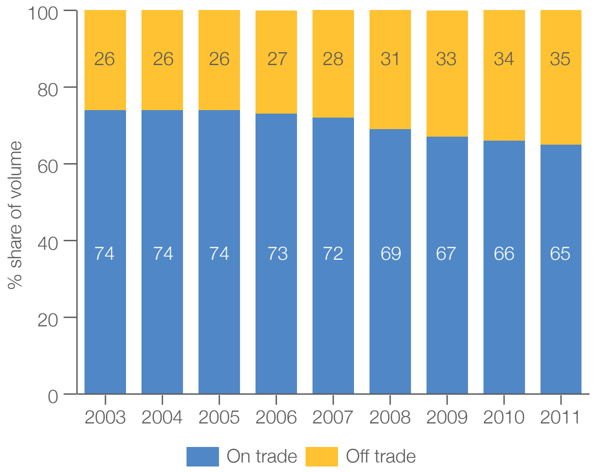
Whilst the Spanish hospitality sector saw a fall in turnover of over 6% between 2008 and 2010, the number of enterprises showed a greater degree of resilience, with a fall of only 2% in aggregate. This is explained largely by the growth in total restaurants (increased by 5%) and a relatively small number of hotels.

The major impact, in terms of enterprises has been felt in the bar sub-sector, with over 11,400 fewer operating in 2010 compared to 2008. This equates to over 110 closing per week in the period.

1 The data presented for the hospitality sector in Spain differs from that which is presented by the Spanish national statistics agency. This is likely as a result of different classification mechanisms. To ensure consistency and transparency across this report and wider analysis, Eurostat figures have been used.

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2003-2011



Source: The Brewers of Europe

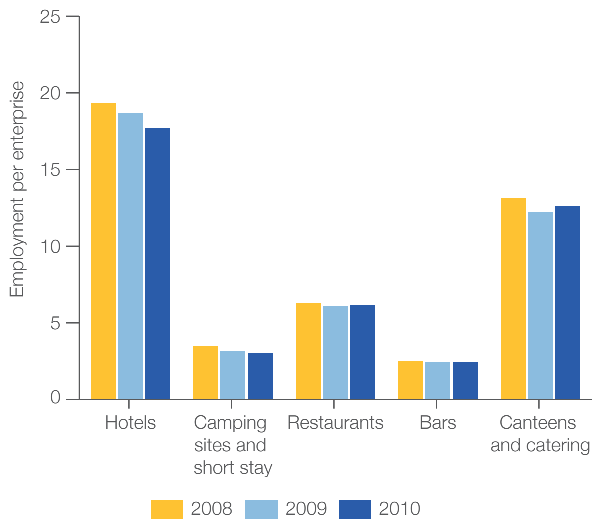
Despite Spain still having a relatively large proportion of beer sales being made in the on-trade, there has been a consistent and significant shift towards the off-trade for beer sales since 2005 (when the proportion of beer sold in the on-trade was nine percentage points higher than in 2011). A range of factors may explain this trend, including increases in excise duties, falling domestic incomes and visitor numbers and regulatory changes.

Licensed venues such as bars and restaurants are now legally required to close between 2am and 3.30am. Prior to the legislative change the legal closing time was 6am. The legislation was introduced at different times regionally across Spain, beginning in 1998 and ending in 2006. This restriction on opening times is likely to have had a negative effect on on-trade sales post 2006.

Employment in the hospitality sector

In 2008, the hospitality sector directly employed 1.28m people. By 2010 this had fallen to 1.23m, resulting in 50,000 less jobs, or a 3.8% reduction. Almost half of these job losses have come in the hotel sub-sector, despite it only representing 25% of the total sector turnover.

Employment per enterprise, 2008-2010



Source: Eurostat

Despite the fall in the number of bars operating in Spain between 2008 and 2010, the number of employees working at each bar, on average, has remained relatively flat. On the other hand, for hotels employment per enterprise has fallen from 2008 levels.

Enterprise Focus

BARS

Bars account for more than 60% of hospitality enterprises, contributing 29% in turnover and 34% in employment in 2010. This reflects the wider bar culture in Spain as well as the significance of the tourist sector.

Alongside the wider economic challenges facing the sub-sector a number of regulatory changes have also impacted overall performance. For instance, opening hours of licensed venues such as bars and restaurants were legally required to close between 2am and 3.30am following legislation implemented between 1998 and 2006 (previously they could open until 6am).

In recent years, bars and nightclubs have had to adapt in order to compete in challenging market conditions. This had led to greater innovation but also some consolidation in the market, with fewer, larger operators.

RESTAURANTS

Despite operating fewer establishments than bars in Spain, the restaurant sub-sector contributes more to turnover (37% of the total in 2010). Restaurants also possess more employees per enterprise, on average, and a more productive workforce in terms of the total output they create.

Whilst the restaurant sub-sector has shown significant resilience to the economic downturn, this could be hampered by any changes, such as labour laws, which impact upon cost of operations.

HOTELS

Hotels represent a quarter of turnover in the hospitality sector and around 17% of employment. Operators have shown particular resilience to changing demand conditions, with only a relatively small fall in the number of enterprises, despite a 10% fall in turnover since 2008. This has resulted in a lower average turnover per enterprise and stimulated the loss of jobs within the sub-sector.

The continued globalisation of tourism is likely to attract greater numbers of tourists to Spain in the medium term. It will, however, also increase the standard of hotel that customers expect, which means Spanish hotels have to ensure they set up quality systems and pay increased attention to tourists' demands.

Sweden

Sweden

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**2.7%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**3.9%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€24.2bn** (6.9% of the total)
GDP	**€9.9bn** (2.8% of the total)
Employment	**252,000** (5.7% of the total)

Total tax contribution of hospitality	**€3.6bn**
Excise	**€0.23bn** (6.0% of the total)
VAT	**€2.2bn** (61.0% of the total)
Employment	**€1.2bn** (32.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.21** is spent in the wider economy.

Key Messages

- Throughout the economic downturn (beginning 2008) the hospitality sector has played an increasingly important role in overall output and job creation terms.
- The return to growth in the hospitality sector in 2010 was supported by a 6% increase in tourism and growing domestic incomes.
- Restaurants increased in numbers by 5% between 2008 and 2010. This, in part, reflects government strategy to promote 'food tourism', which has been supported by the extension of the reduced VAT rate to food and non-alcoholic beverage sales. This has stimulated growth in turnover of around 4.5% in 2012, with an estimated 6,000 additional jobs created, highlighting the effectiveness of such policies.

Summary

Sweden's GDP and hospitality industry followed similar growth paths in the six years from 2000, both growing at a nominal rate of 2.6% per annum, before a two year period of accelerated growth in the hospitality sector was cut short by the global economic downturn. Hospitality employment growth (3.9%) outperformed national employment (0.9%) in Sweden in the ten years from 2000. Net disposable income in Sweden has followed a similar path to GDP recovering strongly from a downturn in 2009.

Despite the downturn, the number of enterprises in operation across the hospitality industry increased between 2008 and 2010. Historically Sweden has always had a relatively high proportion of off-trade beer sales. In recent years, this proportion has increased further, reaching 81% of volumes in 2011.

Demand for hospitality services is sensitive to prices, which include taxes such as VAT and excise duty. The standard VAT rate of 25% applies to alcoholic beverages sold in establishments in the hospitality industry, with a reduced rate of 12% which applies to hotels and all food and non-alcoholic beverages. Beer, wine and spirits are all subject to excise duty in Sweden, which has some of the highest rates of duty on alcoholic beverages in Europe.

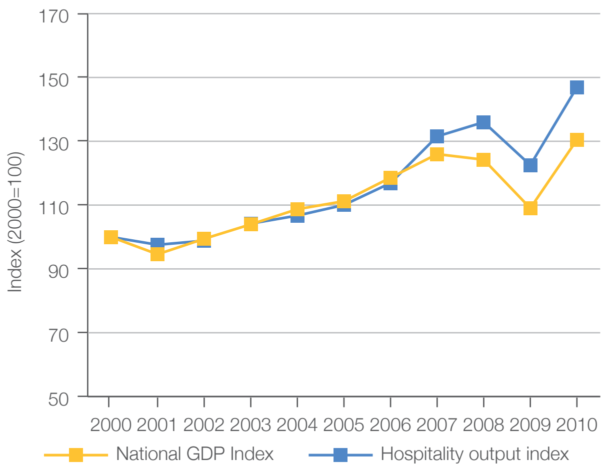
The Swedish government reduced restaurant VAT from 25% to 12% on January 1st, 2012 in an attempt to support wider success in the restaurant sub-sector. The growth in micro breweries is also helping to provide further stimulus to the sector.

In 2010, the Swedish hospitality sector contributed turnover of over €24.2bn to the economy, equivalent to approximately 6.9% of total output. This equates to over €9.9bn of value added to the economy, or 2.8% of total GDP, and supports approximately 252,000 employees in total, 5.7% of the total workforce.

Economy Overview

Sweden's GDP and hospitality industry followed similar growth paths in the six years from 2000, both growing at a nominal rate of 2.6% per annum, but the hospitality sector outgrew the wider economy in the period from 2006 to 2010, albeit with both suffering a decline from 2008 through 2009 and a return to positive growth in the final year of the period. The decline in 2008 and 2009 was linked to the global economic downturn. Overall, hospitality employment growth (3.9%) outperformed national employment (0.9%) in Sweden in the ten years from 2000. Net disposable income in Sweden has followed a similar path to GDP whereas tourism was slightly more volatile over the period in question.

GDP and hospitality turnover index, 2000 - 2010

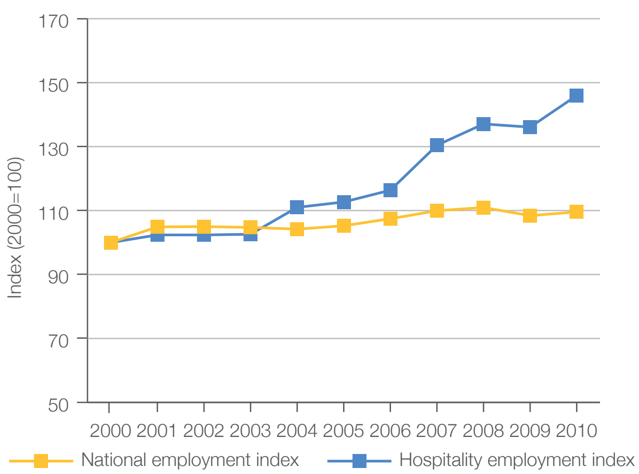


Source: Eurostat

Nominal growth in GDP and hospitality followed a similar path in the six years from 2000, both growing at 2.6%, per annum, before diverging in 2007. The decline in 2008 and 2009 was linked to the global economic downturn, which resulted in GDP returning to 2004 levels.

Inflation in Sweden over the 2000 to 2010 period has grown at a compound annual growth rate of 1.5%. Adjusting for inflation, average GDP growth over the period was 1.2%, and growth in the hospitality sector was 2.4%.

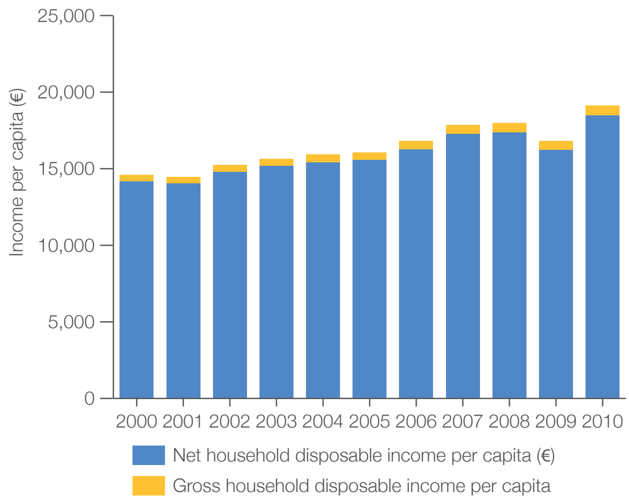
National and hospitality employment index, 2000-2010



Source: Eurostat

Hospitality employment growth (3.9%) outperformed national employment (0.9%) in Sweden in the ten years from 2000. Employment in the hospitality sector began growing at a faster rate in 2004, which may be related to new countries entering the EU and moving to Sweden to work.

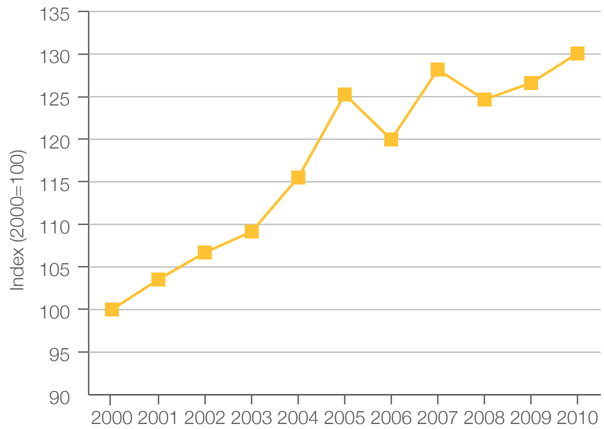
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

In real terms, net disposable income per capita followed a similar path to GDP in Sweden, with stable growth to 2008 before a fall in 2009 and subsequent recovery in 2010.

Tourism index, 2000-2010



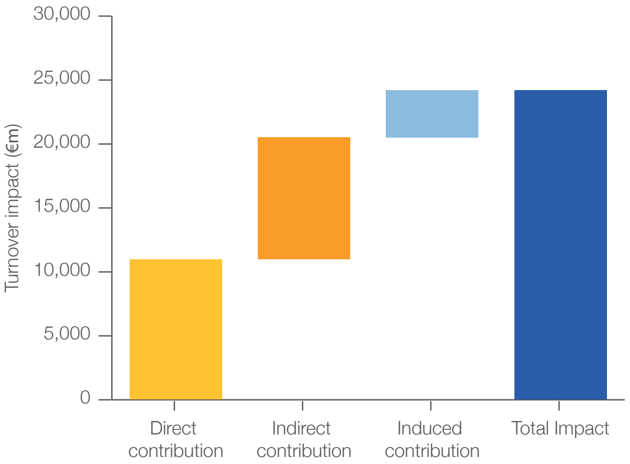
Source: Eurostat

From 2006 to 2010, tourism in Sweden increased by 30%. This growth may be due to more focused marketing of Sweden as a tourist country and the recent initiative to develop the Swedish restaurant sub-sector which positively affected foreign travel to Sweden. The economic crisis in 2008 may have driven the fall in tourism, as consumers have less disposable income to spend on travel.

Economic Contribution of the hospitality sector

In 2010, the Swedish hospitality sector contributed turnover of over €24.2bn to the economy, equivalent to approximately 6.9% of total output. This equates to over €9.9bn of value added to the economy, or 2.8% of total GDP, and supports approximately 252,000 employees in total, 5.7% of the total workforce. For every €1 spent by the sector, an additional €1.21 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

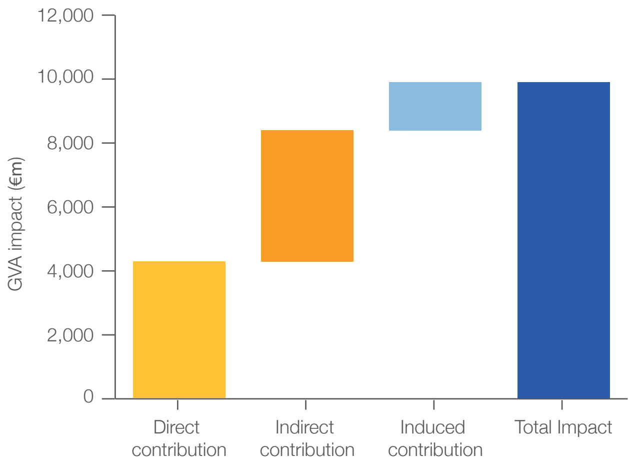


Source: Eurostat, EY calculations

The total turnover supported by the sector in 2010 was €24.2bn, 6.9% of output. This contribution to output is around the European average.

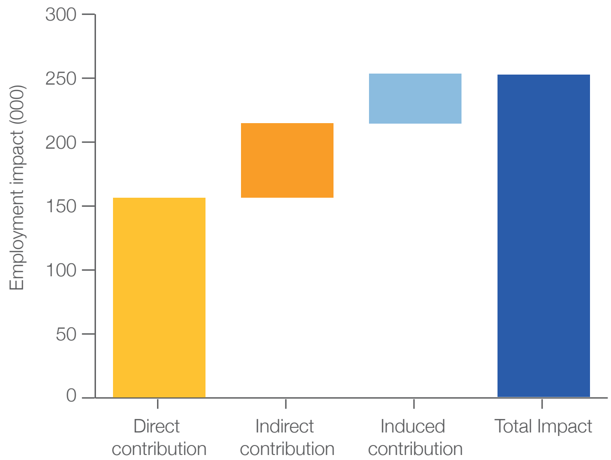
In Sweden, the indirect multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.87, so for every €1 spent by the industry, an additional €0.87 is spent in the supply chain.

GDP impact of hospitality sector, 2010



The total value added to GDP in 2010 was €9.9bn, equivalent to 2.8% of GDP.

Employment impact of the hospitality sector, 2010



The hospitality industry in Sweden directly employs 156,000 individuals with a further 58,000 employed in the supply chain.

The induced contribution is relatively small with a further 39,000 employed. In total the hospitality sector supported around 252,000 jobs in 2010, 5.7% of the workforce.

Regulation / Taxation

In Sweden, the hospitality industry is subject to VAT and excise duty. The standard VAT rate of 25% applies to alcoholic beverages sold in establishments in the hospitality industry. A reduced rate of 12% applies to hotels and all food and non-alcoholic beverages. Both of these rates have remained unchanged since 1996. From January 1st, 2012, restaurant VAT fell from 25% to 12%.

Beer, wine and spirits are all subject to excise duty in Sweden, which has some of the highest rates of duty on alcoholic beverages in Europe.

Sweden currently does not levy taxes on hotel stays.

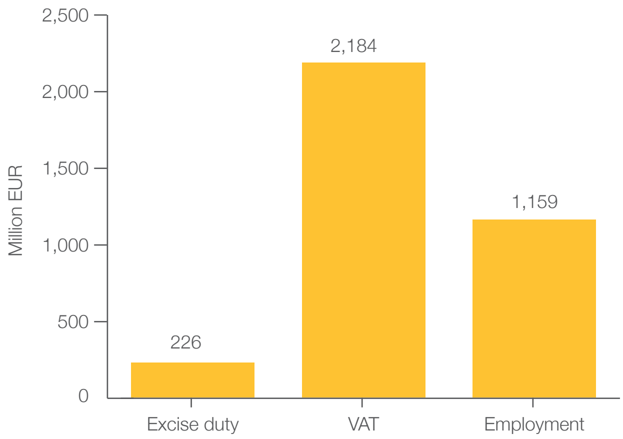
Tax Receipts

The hospitality sector in Sweden is estimated to have contributed €3.57bn to the Exchequer in 2010 from excise duty, VAT and income tax and social security contributions.

Of this, €226m was raised in excise duties arising from sales of alcoholic beverages through on-trade channels. This figure was estimated by multiplying total excise duty receipts by the proportion of beer sales that are made through on-trade channels.

The Swedish government also collected about €2.2bn in revenue raised from gross VAT on hotels and restaurants in 2010. This was calculated against the overall turnover from the industry but does not account for any VAT deductions.

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, income taxes and employers and employees social security contributions raise €1.16bn in revenue for the Exchequer.

Excise Duty

The last changes in excise duty on beer and wine came in 2008. Beer duty was set at SEK 166 per % abv/hl and wine duty was set at SEK 2,158/hl. There have been no recent changes to the excise duty applied to spirits, which has been SEK 50,141/hl pure alcohol, since before 2008.

VAT and Reduced rates

In Sweden, the standard VAT rate of 25% applies to alcoholic beverages sold in establishments in the hospitality industry. A reduced rate of 12% is applied to accommodation and was recently extended to cover restaurant activities (excluding alcohol sales). The 25% and 12% rates have remained unchanged since 1996.

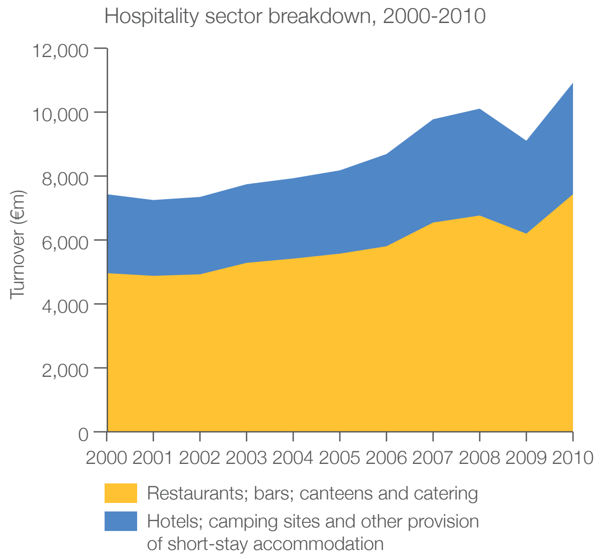
From January 1st, 2012, restaurant VAT fell from 25% to 12%. The Swedish government introduced this measure to increase employment opportunities for young people.

Hospitality sector in focus

Until the peak in 2008, the hospitality sector experienced nominal growth of 3.9% per annum. The decline in 2009 and slight recovery in 2010 is reflective of the impact of the economic downturn on the industry. Despite the downturn, the number of enterprises in operation across the hospitality industry increased between 2008 and 2010. Historically Sweden has always had a relatively high proportion of off-trade beer sales. In recent years, this proportion has increased further, reaching 81% of volumes in 2011.

In 2005, the Swedish government introduced a smoking ban in restaurants and cafés. Another policy affecting the sector is the reduction in VAT on restaurants from 25% to 12% in 2012. This reduction is also expected to have a positive impact on the development of the restaurant sub-sector in the long term.

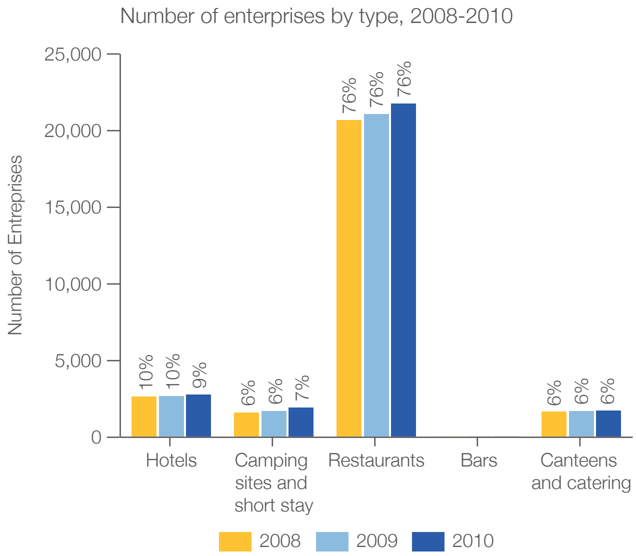
Turnover in the hospitality sector



Source: Eurostat

Until the peak in 2008, the hospitality sector experienced nominal growth of 3.9% per annum. The decline in 2009 and slight recovery in 2010 is reflective of the impact of the economic downturn on the industry. Accommodation services fell by 13% from 2008 to 2009 compared to a fall of 8% for the food and beverage sub-sector.

Enterprises in the hospitality sector

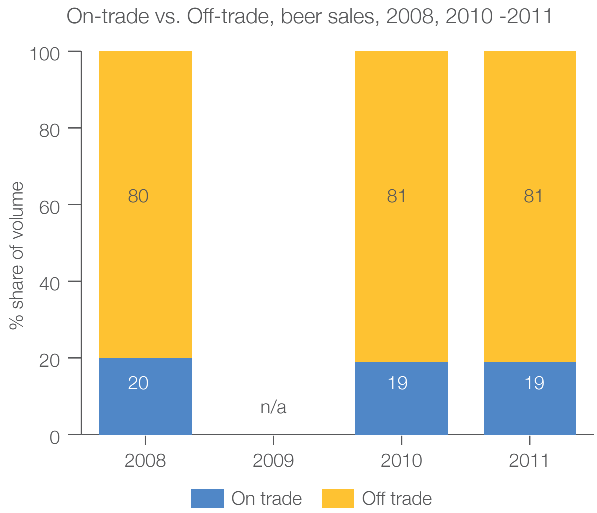


Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Between 2008 and 2010, the number of enterprises in operation across the hospitality industry increased, despite the economic downturn leading to a decrease in turnover. The number of restaurants increased by 5% from 20,610 in 2008, to 21,689 in 2010, while over 100 more hotels were open in 2010 than in 2008.

On-trade vs. Off-trade

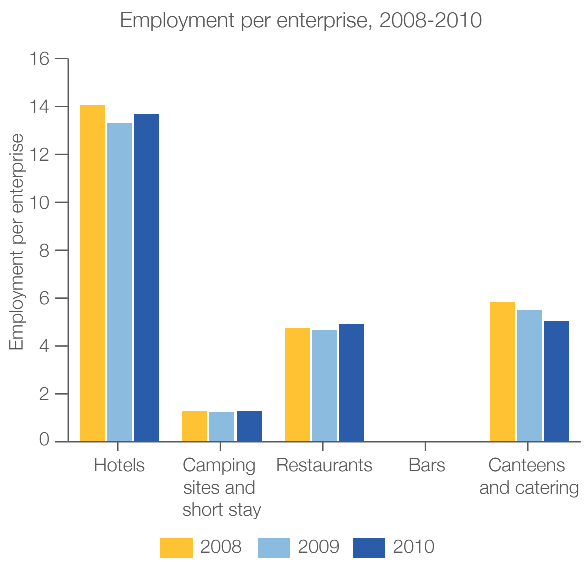


Source: The Brewers of Europe

Sweden has always had a high proportion of off-trade beer sales. In recent years, there has been a slight increase in the proportion of off-trade sales (by volume).

This increase in off-trade sales may have been a consequence of lower consumer incomes after the economic downturn. On top of this, the smoking ban in restaurants and cafés was introduced in Sweden in 2005, which could adversely affect demand for drinking alcoholic beverages outside of the home.

Employment in the hospitality sector



Source: Eurostat

Hotels employ the most individuals per enterprise across the hospitality sector: 14 in 2008 falling to 13.6 in 2010. The number of employees per enterprise remained relatively flat for camping sites and short stay. However, canteens and catering saw a fall in the average number of employees per enterprise, from 5.8 (2008) to 5 (2010).

Enterprise Focus

BARS

Bars are not included within the classification of hospitality operations. Bars in Sweden are likely to be included as restaurants or other catering enterprises.

RESTAURANTS

Restaurants contribute over 60% to hospitality turnover and represent over three quarters of the total number of outlets operating in the industry.

To help increase employment opportunities for young people in the food services sub-sector, the Swedish government reduced restaurant VAT from 25% to 12% on January 1st, 2012. This reduction is also expected to have a positive impact on the development of the restaurant sub-sector in the long term.

In addition to the reduction in VAT, the Swedish government has started a project with a goal to make Sweden the best “food country” in Europe by 2020, which should have a positive impact on the sub-sector.

HOTELS

2,700 hotels generated almost 30% of total hospitality turnover in 2010. Similar to other countries in Europe, hotels are one of the most productive sub-sectors in the hospitality industry, with an average of 11.8 employees generating each €1m of turnover.

In real terms, the Swedish currency has strengthened over the last few years, and this trend is expected to continue in the foreseeable future. If this is the case, there could be a negative impact on the number of international visitors coming to Sweden.

Switzerland

Switzerland

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**4.1%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**4.1%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€34.6bn** (8.3% of the total)
GDP	**€16.7bn** (4% of the total)
Employment	**324,000** (7.8% of the total)

Total tax contribution of hospitality	**€2.2bn**
Excise	**€0.3bn** (14.0% of the total)
VAT	**€1.5bn** (66.0% of the total)
Employment	**€0.5bn** (20.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€1.40** is spent in the wider economy.

Key Messages

- Unlike most of Europe, Switzerland did not fall into recession following the economic crisis in 2008, with disposable incomes continuing to rise and the hospitality sector growing broadly in line with GDP.
- The consistent growth in the hospitality sector has been supported by stable VAT and excise regimes, something which may be undermined by any changes to the VAT system planned for 2016.
- Whilst the hospitality sector has shown strong performance between 2000 and 2010, it is sensitive to fluctuations in the exchange rate. If the Swiss Franc remains strong this may impact the ability to compete for tourism, from the rest of Europe in particular.

Summary

Both GDP and hospitality output in Switzerland grew nominally by 4.1% per annum over the ten years spanning 2000 to 2010, with neither being significantly affected by the economic crisis in 2008 and 2009. National employment in Switzerland grew at a steady pace across the decade in question (1.0% per annum), while hospitality employment remained relatively flat at around 225,000 employees. Compared to 2006, tourism in 2010 was 6% higher in Switzerland.

In 2009, 69% of all enterprises in the hospitality sector in Switzerland were restaurants, while only 7% were bars. One fifth of enterprises are hotels. Unlike the majority of countries in Europe, Switzerland has seen a recent shift from off-trade to on-trade for beer sales.

Demand for hospitality goods and services is sensitive to prices, which include taxes such as VAT and excise duty. Switzerland has an 8% standard rate of VAT. This is applied to restaurants and cafés, bars and nightclubs. Hotels are subject to a special rate of 3.8%. The VAT system in Switzerland is currently undergoing reforms, with projected implementation of these changes in 2016 at the earliest. These changes would directly affect the hospitality sector.

In Switzerland a complex model for tourism tax consists of 2 elements: the Beherbergungsabgabe ("BA") tax and Kurtaxe. Both are percentage amounts determined by the grade of the hotel. On top of this, each Canton can determine its own tourism tax model, therefore some have three taxes.

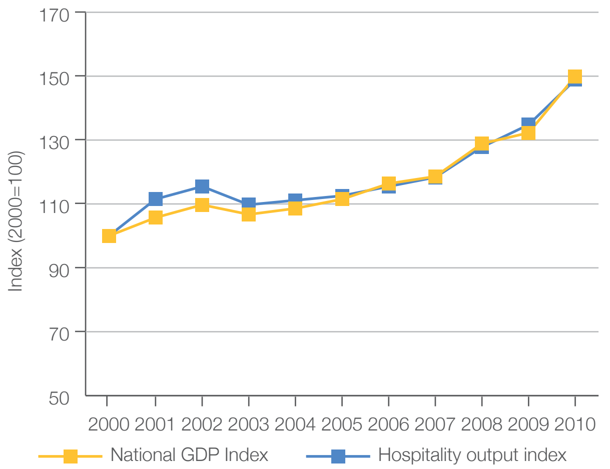
The total turnover supported by the Swiss hospitality sector in 2010 was €34.6bn, 8.3% of total output, which is the third highest proportion in Europe. The Swiss hospitality sector has a total added value to GDP of €16.7bn, 4.0% of the total. In delivering this output, the sector supports 324,000 jobs, equivalent to 7.8% of the total workforce.

Economy Overview

GDP in Switzerland grew nominally by 4.1% per annum between 2000 and 2010. Hospitality output in 2010 (€20.3bn) was 49% higher than in 2000 (€13.6bn). National employment in Switzerland grew at a steady pace across the period in question (1.0% per annum), while hospitality employment in 2010 was 5% lower than it was in 2000.

Net disposable income per capita in Switzerland is one of the highest in Europe and has followed a similar growth path to GDP with a slight rise in 2002 followed by faster growth towards the end of the period. Compared to 2006, tourism in 2010 was 6% higher in Switzerland.

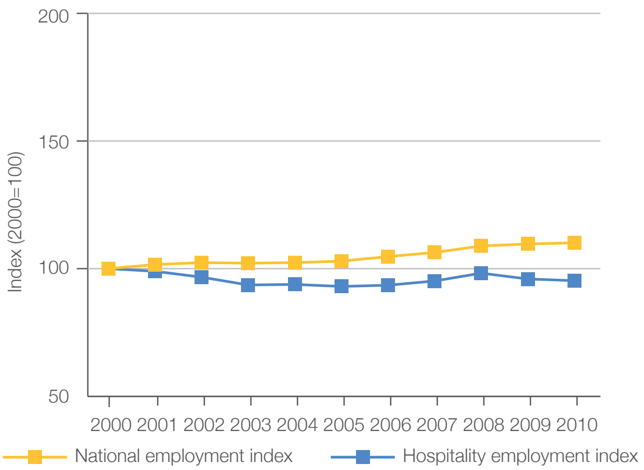
GDP and hospitality turnover index, 2000 - 2010



Source: Eurostat and Swiss Federal Tax Administration

Over the ten years spanning 2000 to 2010, GDP and hospitality followed similar growth paths, both growing nominally at 4.1% per annum. Neither GDP nor hospitality were significantly affected by the economic downturn, as growth continued to strengthen between 2009 and 2010.

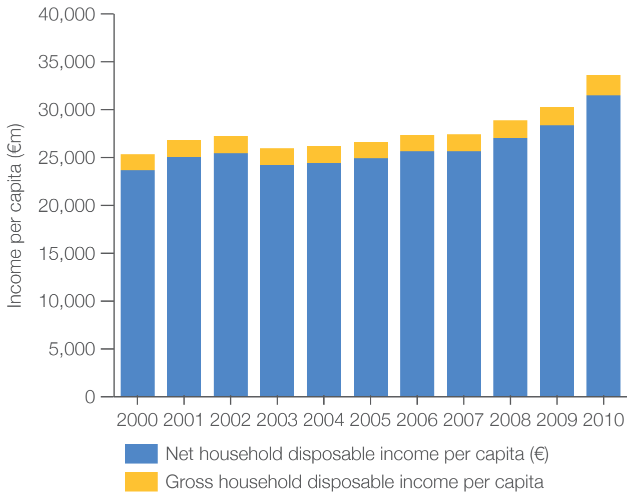
National and hospitality employment index, 2000-2010



Source: Eurostat and Swiss Federal Statistical Office

National employment in Switzerland grew at a steady pace across the decade in question (1.0% per annum). The average number of employees working in the hospitality sector each year remained relatively flat between 2000 and 2010, at around 225,000 employees.

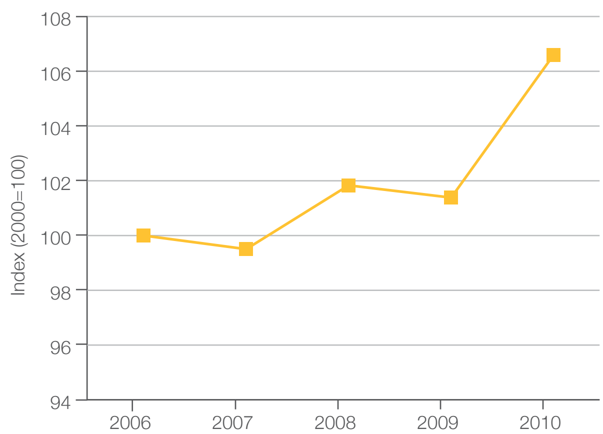
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Real net disposable income per capita in Switzerland followed a similar growth path to GDP with a slight decrease in 2003 followed by relatively stable growth before faster growth towards the end of the period. On average, real growth was 2.9% per annum.

Tourism index, 2006-2010



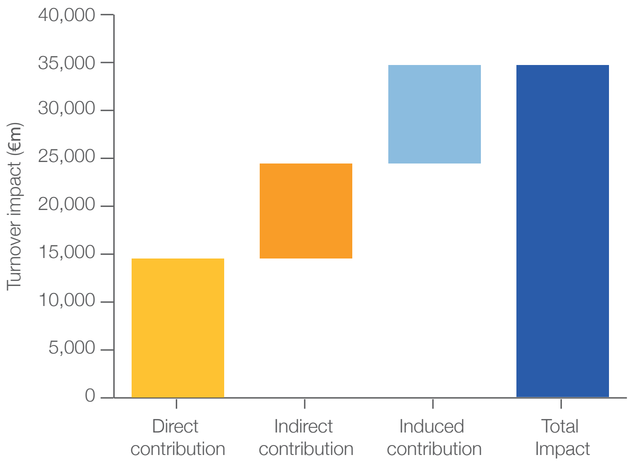
Source: Eurostat

Compared to 2006, tourism in 2010 was 6% higher in Switzerland. This is primarily as a result of a rise in 2010.

Economic Contribution of the hospitality sector

The total turnover supported by the Swiss hospitality sector in 2010 was €34.6bn, 8.3% of total output, which is the third highest proportion in Europe. The Swiss hospitality sector has a total added value to GDP of €16.7bn, 4.0% of the total. In delivering this output, the sector supports around 324,000 jobs, equivalent to 7.8% of the total workforce. For every €1 spent by the sector, an additional €1.40 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

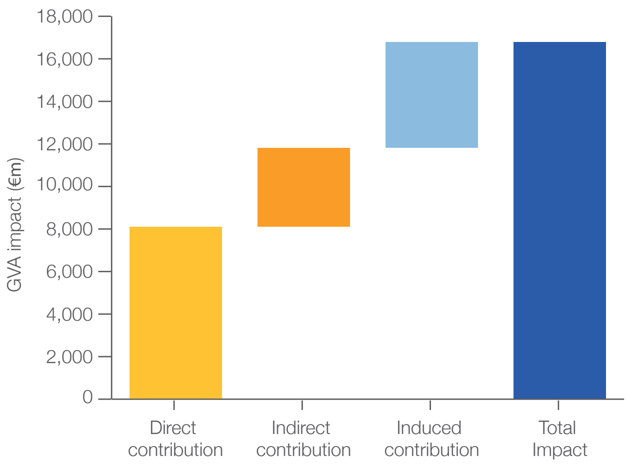


Source: Eurostat, EY calculations

The total turnover supported by the sector in 2010 was €34.6bn, 8.3% of output.

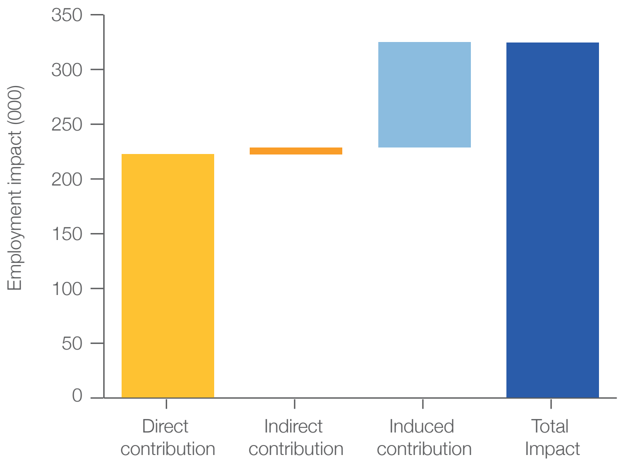
The indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') for Switzerland is 1.69, so for every €1 spent in the sector, an additional €0.69 is spent in the supply chain.

GDP impact of hospitality sector, 2010



The total value added to GDP by the sector was €16.7bn in 2010, equal to 4.0% of the total. This is the 11th highest contribution in Europe.

Employment impact of the hospitality sector, 2010



In Switzerland, the hospitality sector directly employs 222,000 individuals. With a very small indirect employment multiplier of 1.03, only 6,000 more people are employed in the supply chain. The induced contribution is much larger than the indirect, employing 96,000 individuals.

In total the sector supported around 324,000 jobs in 2010, 7.8% of the total workforce.

Regulation / Taxation

The Swiss hospitality sector is subject to both VAT and excise duty levied on alcoholic beverages. The standard rate of VAT of 8% applies to restaurants and cafés, bars and nightclubs. Hotels are subject to a reduced rate of 3.8%.

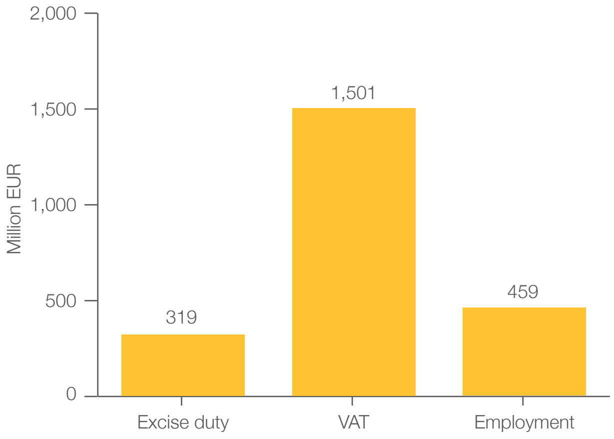
In Switzerland a complex model for tourism tax consists of 2 elements: BA tax and Kurtaxe. Both are percentage amounts determined by the grade of the hotel. On top of this, each Canton can determine its own tourism tax model, therefore some have three taxes. For example, Lucerne implements the Lucerne hotel tax whose proceeds are intended for the benefit of the hotels. At the present time, no taxes on saturated fats or sugars have been implemented in Switzerland.

Tax Receipts

The hospitality sector in Switzerland is estimated to have contributed almost €2.23bn to the Exchequer in 2010 from VAT and employee related contributions.

Of this, €319m was raised in excise and €1.5bn was raised in gross VAT paid by the sector (deducted VAT is not accounted for).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, income taxes and employers and employees social security contributions raised €459m in revenue for the Exchequer in 2010.

Excise Duty

There have been no changes in excise duty applied to alcoholic beverages since 2000. The duty applied to beer is CHF 25.3 / hl. The duty on spirits is CHF 2,900 / hl pure alcohol. Wine is zero rated.

VAT and Reduced rates

Switzerland has a standard rate of VAT of 8%. This applies to restaurants and cafés, bars and nightclubs. Hotels are subject to a reduced rate of 3.8%.

The VAT system in Switzerland is currently undergoing reforms, with projected implementation of these changes in 2016 at the earliest.

Whilst the outcome of this process is not yet known, it will drive a degree of uncertainty in the hospitality sector, as any potential increases will directly impact upon consumer purchasing power and discretionary spending.

Other taxes

Switzerland has a complex tourist tax model consisting of 2 elements: BA tax and Kurtaxe. Both are percentage amounts determined by the grade of the hotel. BA tax revenues are used to finance tourism advertising and to maintain the region's infrastructure, with the proceeds being split between the Canton and Local Tourist Authority.

The proceeds from the Kurtaxe are wholly used to improve the tourism experience for visitors. On top of this, each Canton can determine its own tourism tax model, therefore some have three taxes. For example, Lucerne implements the Lucerne hotel tax whose proceeds are intended for the benefit of the hotels.

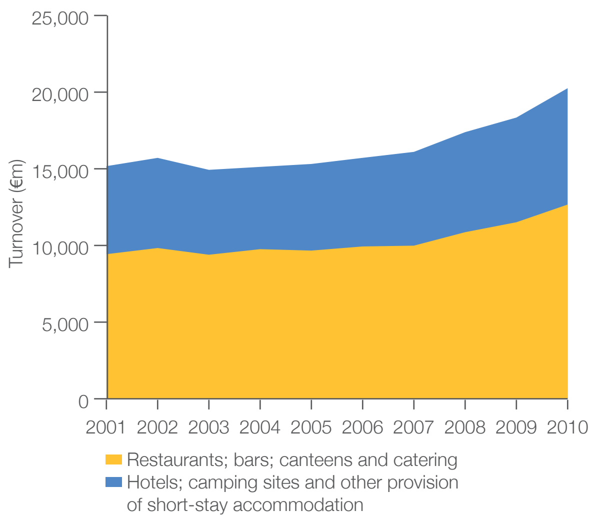
Hospitality sector in focus

Unlike the trend witnessed across much of Europe, hospitality turnover in Switzerland increased by 0.4% between 2009 and 2010, with accommodation services increasing by 0.2% and food and beverages by 0.5% respectively. In 2009, 69% of all enterprises in the hospitality sector in Switzerland were restaurants, while only 7% were bars. One fifth of enterprises are hotels. Unlike most countries in Europe, Switzerland has seen a recent shift from off-trade to on-trade for beer sales.

The Swiss franc is particularly strong compared to other currencies in Europe, and this trend is expected to continue for the foreseeable future. This makes visiting Switzerland relatively more expensive, thus placing pressure on tourist arrivals. On the other hand, it also has the impact of reducing import costs for production inputs, helping operators to maintain profitability.

Turnover in the hospitality sector

Hospitality sector breakdown, 2001-2010



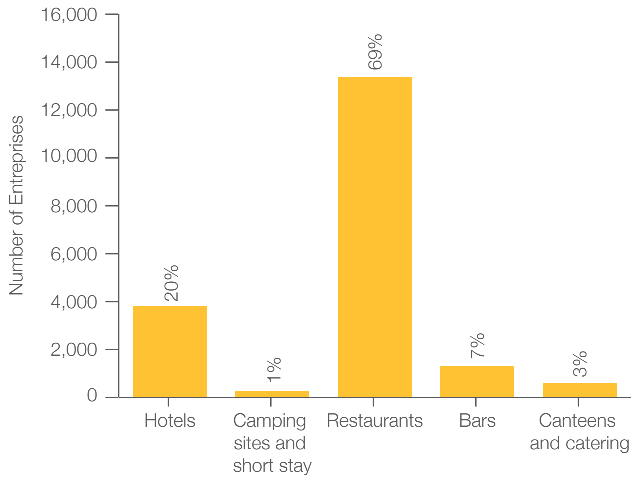
Source: Eurostat

Hospitality turnover remained relatively constant between 2001 and 2007, before average annual growth of 8% in the subsequent years to 2010 (with turnover peaking to the end of the period at €20.3bn).

Accommodation accounted for around 37% of hospitality turnover in 2010, at €7.6bn.

Enterprises in the hospitality sector

Number of enterprises by type, 2009



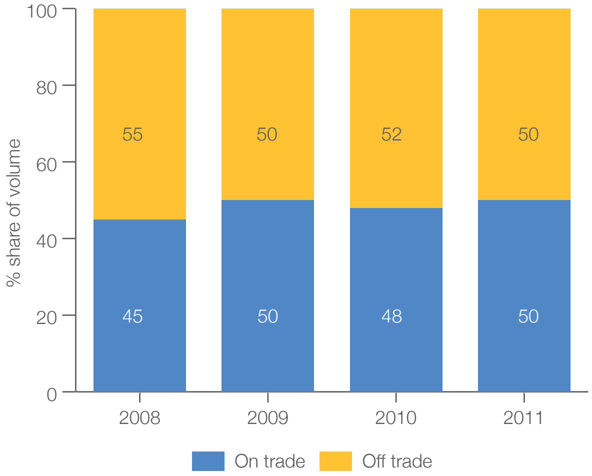
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

In 2009, almost 70% of all enterprises in the hospitality sector in Switzerland were restaurants (13,400), while only 7% were bars (1,300). One fifth of enterprises were hotels (3,800).

On-trade vs. Off-trade

On-trade vs. Off-trade, beer sales, 2008 - 2011



Source: The Brewers of Europe

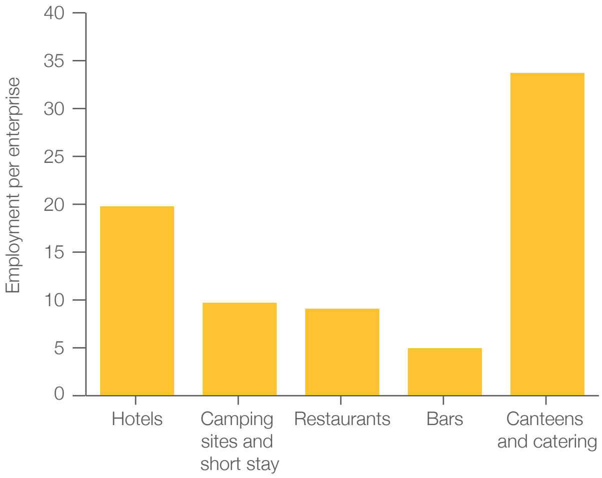
Unlike the majority of countries in Europe, Switzerland has seen a recent shift from off-trade to on-trade for beer sales. Since 2008, off-trade's share of volume of beer sold has decreased by 5 percentage points from 55% to 50%.

The bar culture in Switzerland is not as established as in other countries across Europe, with only 7% of all hospitality establishments being bars in 2009. This may be a reason why off-trade has a higher proportion of beer sales than on-trade.

Employment in the hospitality sector

The average number of employees working in the hospitality sector each year remained relatively flat between 2000 and 2010, at around 225,000 employees. The overall trend was for hospitality to create jobs at a rate below the average for the national labour market.

Employment per enterprise, 2009



Source: Eurostat

In 2009, canteens and catering had the highest average employment per enterprise (33.6), 28.7 employees higher than for bars (4.9).

Enterprise Focus

BARS

The bar sub-sector in Switzerland is very small, particularly compared to other European countries). In 2009, 1,292 bars contributed only 2% towards total hospitality turnover.

The VAT system in Switzerland is currently undergoing reforms, with projected implementation of these changes in 2016 at the earliest. On top of this, a transition to flexible opening hours is currently in discussion by the Swiss government. These changes would directly affect the bar sub-sector in Switzerland.

RESTAURANTS

Restaurants are the largest sub-sector of the hospitality sector, generating over 50% of total turnover. Almost 70% of the enterprises in the sector are restaurants, each of which has an average of 9 employees.

HOTELS

Almost 4,000 hotels operating in Switzerland in 2009 generated over one third of revenue in the hospitality sector. The productivity of the hotel sub-sector has increased, from 14.6 employees per €1m of revenue in 2009 to 13.5 employees per €1m of revenue in 2010.

The Swiss franc is particularly strong compared to other currencies in Europe, and this trend is expected to continue for the foreseeable future. If this is the case, there could be a negative impact on the number of international visitors coming to Switzerland.

Ongoing structural change has decreased the number of hotels in rural and mountain areas leading to below average performance of the hotel sub-sector compared to the overall economy.

Turkey

Turkey

Key Statistics

Average annual GDP growth rate, 2000 – 2010 (nominal)	**12.3%**
Average hospitality sector	Not available

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€34bn** (6.2% of the total)
GDP	**€15bn** (2.7% of the total)
Employment	**885,000** (4.0% of the total)

For every €1 spent in the hospitality sector, an additional €1.84 is spent in the wider economy.

Key Messages

- Turkey's economy recovered strongly in 2010, growing by 9.2% in nominal terms from 2009. This has been supported by an expanding tourism industry.
- Despite the strong return to growth in 2010, the proportion of beer sold in the on-trade has fallen. With bars representing 50% of all hospitality enterprises, further falls in the on-trade may have implications for the sector as a whole (and associated employment).
- Reflecting the importance of the hospitality sector to Turkey, a reduced VAT rate of 8% is applied across all categories (excluding alcohol sales and certain categories of restaurants).

Summary

The Turkish economy experienced significant growth between 2000 and 2010, at 6.6% per annum in nominal terms. Unlike other economies in Europe, the Turkish economy recovered well from the financial crisis, expanding by 9.2% in 2010. Tourism (a key driver of hospitality performance) has been one of the fastest growing sectors in Turkey, growing at an average annual rate of 10.6% between 2000 and 2010.

Negotiations about Turkey's accession to the European Union are ongoing. As Turkey has continued to grow while the economies of the European Union have stagnated, the dynamic surrounding these negotiations is likely to move more in to Turkey's favour, although the year of accession is still uncertain.

The hospitality sector faces the same general rate of VAT (18%) as the rest of the economy. The exception to this is for accommodation, which benefits from a reduced rate of 8%. The standard rate rose substantially in 2001 from 10%.

The hospitality sector in Turkey is dominated by restaurants and hotels, representing 33% and 43% of turnover in 2009 respectively. Despite generating only 10% of turnover in the hospitality sector in 2009, bars represent 49% of enterprises operating in the sector.

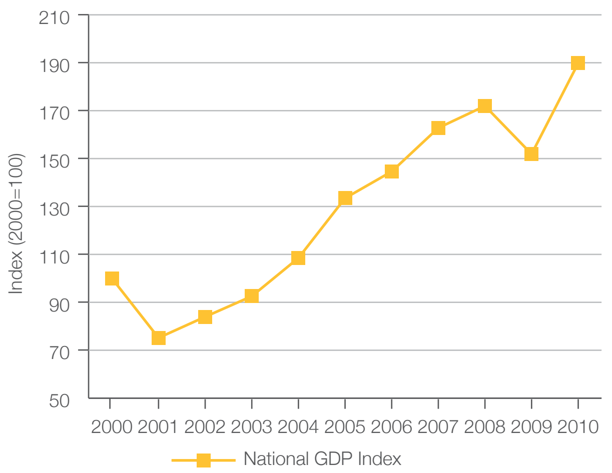
Turkey has had a fairly comprehensive indoor smoking ban (introduced in 2009), applied across the hospitality sector. This has provided a consistent challenge for operators and contributed to a fall in on-trade sales as a proportion of the total since 2008 (with sales in the on-trade creating greater output and employment than in the off-trade).

Economy Overview

The Turkish economy experienced significant growth between 2000 and 2010, with GDP growing at 12.3% per annum in nominal terms. Unlike other economies in Europe, the Turkish economy recovered well from the financial recession, expanding by 9.2% in 2010. Tourism is one of the fastest growing sectors in Turkey, growing at an average annual rate of 10.6% between 2000 and 2010 and supporting the development of the hospitality sector.

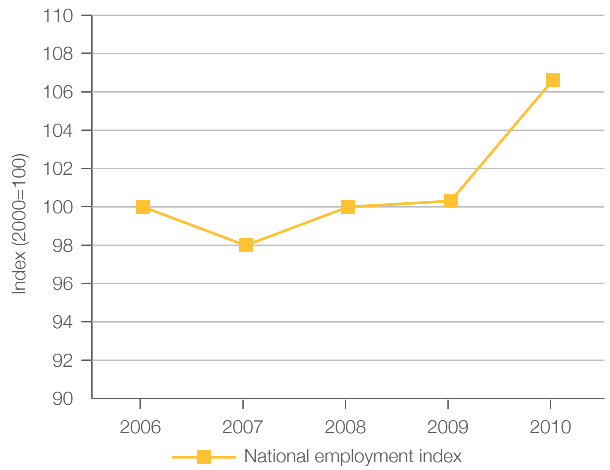
Negotiations about Turkey's accession to the European Union are ongoing. As Turkey has continued to grow while the economies of the European Union have stagnated, the dynamic surrounding these negotiations is likely to move more in to Turkey's favour, although the year of accession is still uncertain.

GDP index, 2000 - 2010



Source: Eurostat

National employment index, 2006-2010



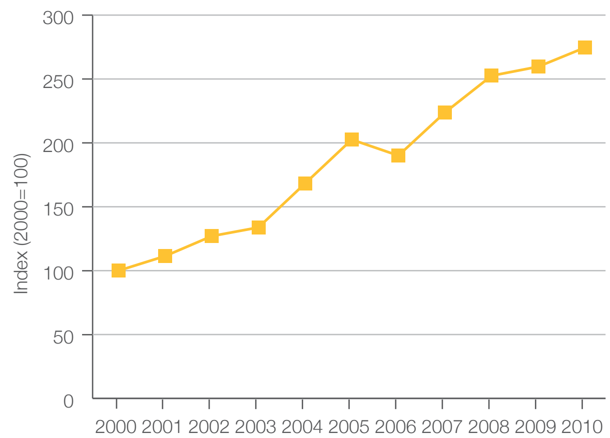
Source: Eurostat

The Turkish economy experienced significant growth between 2000 and 2010, averaging 12.3% per annum in nominal terms. This relatively high nominal growth rate has come at a period of high inflation however, at 18.5% per annum (this is largely due to particularly high inflation in the early years; the average annual inflation since 2004 has been 8.6%, versus nominal GDP growth of 14.2% in the same period). No equivalent trend data for the hospitality sector was readily available for this study.

While many economies in Europe have been unable to fully recover from the global financial recession, the Turkish economy expanded by 9.2 per cent in 2010, thus standing out as the fastest growing economy in Europe.

Employment in Turkey has grown substantially between 2009 and 2010 (an increase of around 7%), reflecting the strong recovery in the wider economy.

Tourism index, 2000-2010



Source: Eurostat

Over the course of the 2000 to 2010 period tourism grew by an average annual rate of 10.6%, despite a dip in foreign arrivals in 2006. This is one of the fastest rates in Europe.

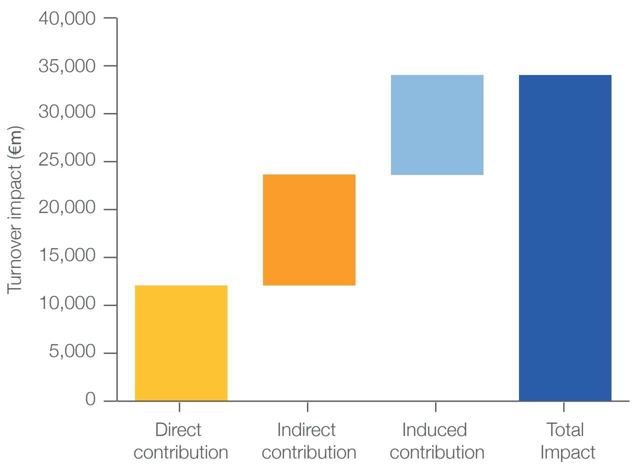
As one of the key contributors to the hospitality sector, the growth in visitors has been welcome. Turkey has emerged as a popular tourist destination for many Europeans, competing with other Mediterranean countries such as Greece, Italy and Spain.

Popular resorts include Antalya and Mugla, both located on the Turkish Riviera. On top of this, Istanbul has gained an increasing reputation for city breaks.

Economic Contribution of the hospitality sector

The total turnover supported by the Turkish hospitality sector was €33.9bn in 2009. This equates to a value added to GDP of €14.7bn, 2.7% of the total. For every €1 spent by the sector, an additional €1.84 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects). A total of 885,000 jobs were supported by the Turkish hospitality sector in 2009, representing 4.0% of the total workforce.

Turnover of the hospitality sector, 2009

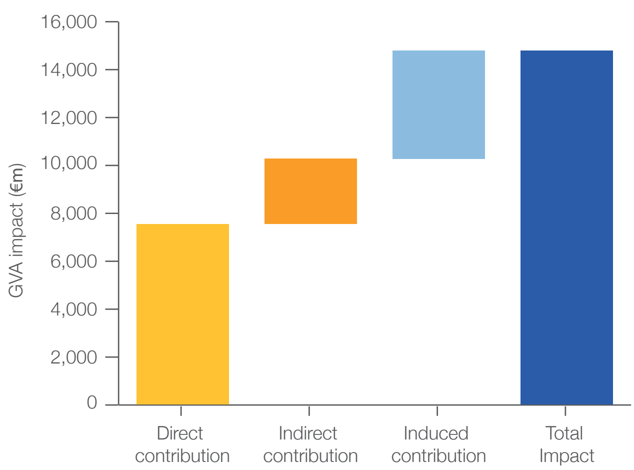


Source: Eurostat, EY calculations

Total turnover supported by the hospitality sector is €33.9bn. Of this, €11.9bn is directly contributed by the hospitality sector.

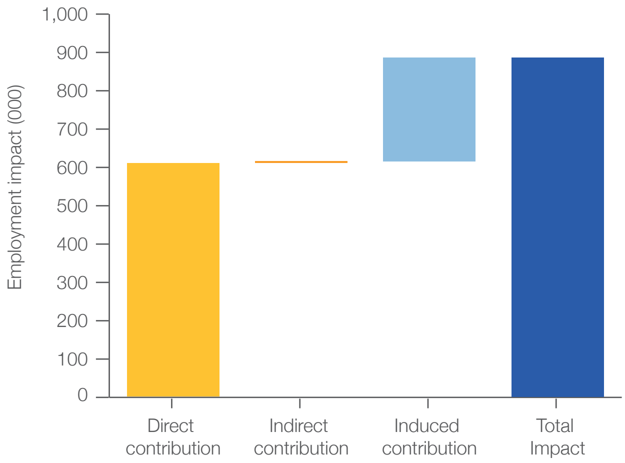
Turkey's indirect turnover multiplier (which calculates the impact on the supply chain only, thus not including the 'induced effect') is 1.97, meaning that for every €1 spent by the hospitality sector an additional €0.97 of demand is generated in its supply chain.

GDP impact of hospitality sector, 2009



The total value added by the sector including its indirect and induced effects is €14.7bn, or 2.7% of GDP.

Employment impact of the hospitality sector, 2009



The hospitality sector directly employs or supports over 885,000 jobs, representing 4.0% of the total workforce.

The Turkish hospitality sector has a comparatively small indirect impact, less than one per cent of the direct impact; this suggests that the sector relies proportionately more on imported inputs or labour.

The induced contribution is also comparatively small at 44% of the direct impact. This suggests that compensation of employees is a relatively small fraction of total turnover.

Regulation / Taxation

For Turkey to make further progress in the accession negotiations, a change in excise duty structure may need to take place, to ensure alignment with all other countries in the EU. There is currently an excise duty applied to beer, wine and spirits.

A standard rate of VAT of 18% is applied in Turkey, increased from 10% in 2001. A reduced VAT rate of 8% is applied across all hospitality categories (excluding alcohol sales and certain categories of restaurants).

Excise Duty

Duty on beer in Turkey is TRY 63 per % abv/hl. The duty applied to wine is TRY 3.53 per % abv/hl and the rate on spirits is TRY 104.87 per % abv/hl.

On 18 May 2009, Turkey and the European Commission agreed a set of mutually accepted milestones with a view to the elimination of discriminatory taxation.

For Turkey to make further progress in the accession negotiations, a change in excise duty structure will need to take place, to ensure alignment with all other countries in the EU.

VAT and Reduced rates

The standard rate of VAT in Turkey is 18%. This has not changed since 2001, when it was increased from 10%.
A reduced VAT rate of 8% is applied across all categories (excluding alcohol sales and certain categories of restaurants).

Unlike many European countries, Turkey has not decided to change the rate of VAT in response to the global economic crisis.

Hospitality sector in focus

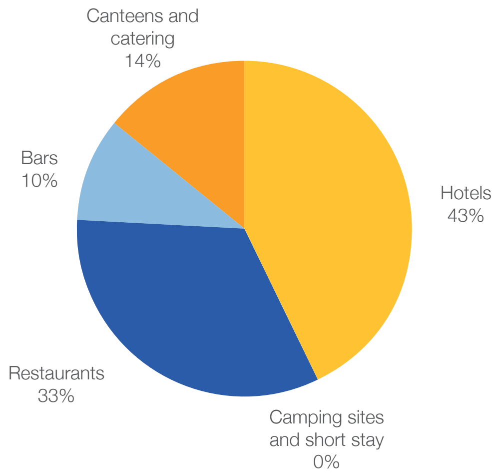
The hospitality sector in Turkey is dominated by restaurants and hotels, representing 33% and 43% of turnover in 2009 respectively. Despite generating only 10% of turnover in the hospitality sector in 2009, bars represent 49% of enterprises operating in the sector.

Turkey has a fairly comprehensive indoor smoking ban (introduced in 2009), applied across the hospitality sector. This has provided a consistent challenge for operators as they attempt to divert alcohol consumption from the off-trade to the higher value adding on-trade (as a sale in the on-trade creates greater output and employment than in the off-trade).

Similarly to many countries in Europe, Turkey has witnessed an increase in the proportion of beer sales in the off-trade since 2008, a reflection of the impact of multiple rises in excise duty on beer and the smoking ban.

Turnover in the hospitality sector

Hospitality sector breakdown, 2009

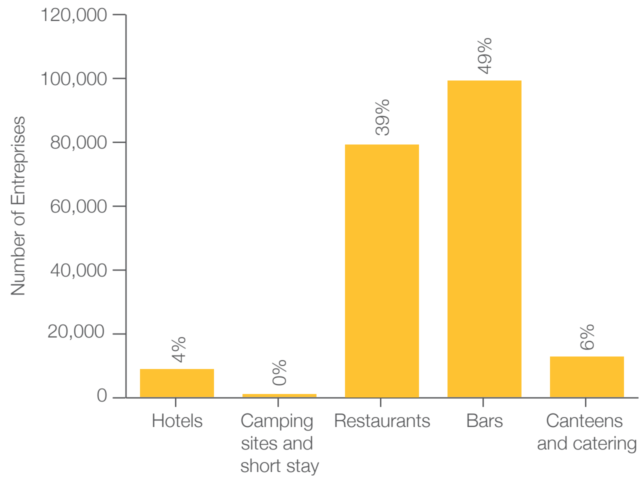


Source: Eurostat

In 2009, the hospitality sector in Turkey generated almost €12bn in turnover. The sector is dominated by hotels and restaurants, who together contributed to over three quarters of turnover while employing 63% of the sector's workforce.

Enterprises in the hospitality sector

Number of enterprises by type, 2009

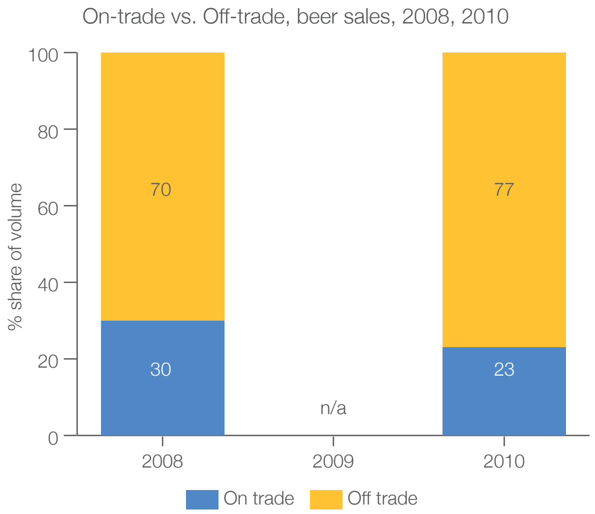


Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Over 200,000 enterprises were open in the hospitality sector in Turkey in 2009. Despite generating only 10% of turnover in the hospitality sector in 2009, bars represent almost 50% of enterprises operating in the sector. Restaurants also represent a sizeable proportion of enterprises in the sector (39%).

On-trade vs. Off-trade

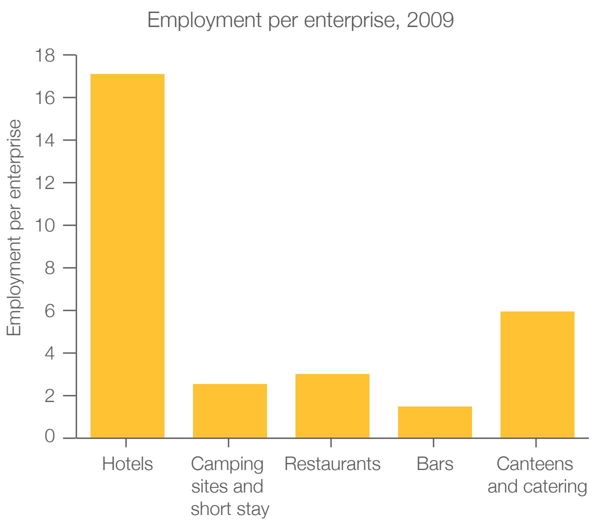


Source: The Brewers of Europe

Similarly to other European countries such as Latvia and Estonia, off-trade represents a high proportion of beer sales in Turkey. The proportion of total beer sales (by volume) accounted for by the on-trade has fallen since 2008, from 30% to 23% in 2011, reflecting the multiple rises in excise duty on beer and dampening incomes.

Employment in the hospitality sector

The hospitality sector employed 610,000 people in 2009 and supported a further 275,000 jobs elsewhere in the economy. This equates to 4.0% of the total workforce in Turkey.



Source: Eurostat

Hotels employ the most people per enterprise (17), while all other sub-sectors of the hospitality sector employ less than 10 people per enterprise on average.

Enterprise Focus

BARS

Bars represent 10% of the total turnover of the hospitality sector, employing over 20% of the sector's workforce. The bar sub-sector has suffered in recent years due to the introduction of the smoking ban in 2009 and the multiple rises in excise duty on beer between 2002 and 2010. Combined, these have led to a fall in the proportion of total beer sales (by volume) accounted for by the on-trade.

RESTAURANTS

Restaurants represented 33% of the total turnover and almost 40% of the total employment in the sector. Similarly to the bar sub-sector, restaurants are likely to have been affected by the smoking ban, introduced in Turkey in 2009.

HOTELS

In 2009, there were 8,706 enterprises operating in Turkey in the hotel sub-sector, employing almost 150,000 people. The number of bed places has almost doubled from around 325,000 in 2000 to 645,000 in 2010, reflecting the increased demand for Turkey as a tourist destination.

United Kingdom

United Kingdom

Key Statistics

Average annual GDP growth rate, 2000 - 2010 (nominal)	**1.0%**
Hospitality sector annual growth rate, 2000 - 2010 (nominal)	**0.4%**

Total economic contribution of hospitality (incl. direct, indirect and induced impacts):

Output	**€146.2bn** (8.6% of the total)
GDP	**€61.6bn** (3.6% of the total)
Employment	**2.7m** (9.4% of the total)
Total tax contribution of hospitality	**€22.2bn**
Excise	**€5.2bn** (24.0% of the total)
VAT	**€11.8bn** (53.0% of the total)
Employment	**€5.2bn** (23.0% of the total)

For every **€1** spent in the hospitality sector, an additional **€0.85** is spent in the wider economy.

Key Messages

- The hospitality sector in the UK is mature and broadly trends with the wider economy. Unlike much of Europe, the sector in the UK began to decline in 2007 and struggled to fully recover to 2010. Between 2010 and 2012 however, the sector has rebounded to some extent, creating an estimated 153,000 jobs.
- The UK is rare in Europe in that it does not apply any reduced rates to the hospitality sector (only 4 of 31 countries reviewed do not apply a reduced rate to accommodation).
- The fall in disposable incomes and relatively high price levels makes the sector comparatively expensive. The impact of this can be seen in the falling share of the on-trade and closure of around 54 pubs per week between 2008 and 2010.

Summary

The UK's GDP and hospitality sector grew towards a peak in 2007 before a range of factors, largely resulting from the financial crisis and subsequent falls in disposable incomes, employment and tourism (three key drivers of hospitality performance), pushed the UK into recession in 2008 and 2009.

The standard rate of VAT in the UK is 20%, with no applicable reduced rates (the UK is one of only four European countries not to apply a reduced VAT rate to accommodation). The rate was increased from 17.5% in 2011 as part of the coalition government's plans to reduce the UK budget deficit. There have been a number of changes in the excise duty applied to alcohol since 2008, with incremental increases each year until 2013 (with duty on beer at £19.12 per % abv / hl) when the escalator was abolished.

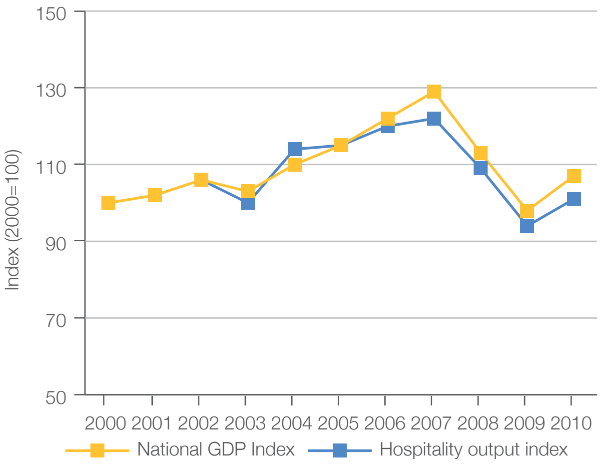
The hospitality sector in the UK finished the 2000 to 2010 period with direct turnover of €79bn, only marginally higher than the 2000 level, and 17% less than the 2007 peak. The food and beverage sub-sector contributes over three quarters of the revenue in the hospitality sector and employs 80% of the employees (at 1.5m in 2010). Between 2008 and 2010, hotels suffered a fall in turnover of 7% to €15.7bn, representing 21% of the hospitality sector total.

The UK has an established pub culture which is one of the largest in Europe with 44,400 enterprises operating in 2010, a fall of 5,500 from 2008 levels (a net loss of 54 pubs per week). A key factor in this has been a notable shift from on-trade to off-trade with consumers choosing to buy alcoholic beverages from retailers rather than pubs and bars. In addition to the smoking ban introduced in 2007, there have been a number of other regulatory issues which pose a challenge to the hospitality sector. These include relatively high licensing costs and the potential introduction of Late Night Levies, Early Morning Restriction Orders and minimum pricing regulations for alcoholic beverages (not yet implemented anywhere in the UK due to a legal challenge).

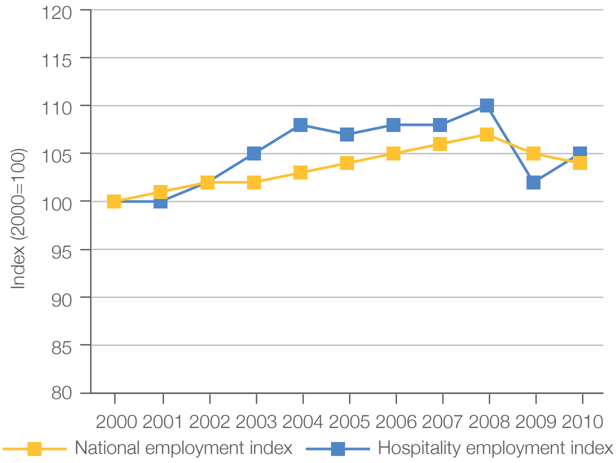
Economy Overview

The UK's GDP and hospitality sector followed similar growth paths between 2000 and the peak in 2007. The decline in 2008 and 2009 was linked to the global economic downturn and associated impacts upon tourism, business demand and discretionary spending.

Hospitality employment grew at a slightly higher rate than the economy as a whole but the economic downturn resulted in a significant fall in jobs supported by the sector. Net disposable income in the UK has followed a similar path to GDP, with downward pressure in recent years acting to suppress consumer demand. The recovery in 2010 has been followed by modest growth in the UK, with further austerity measures in 2013 likely to place further strains on household spending choices.



Source: Eurostat



Source: Eurostat

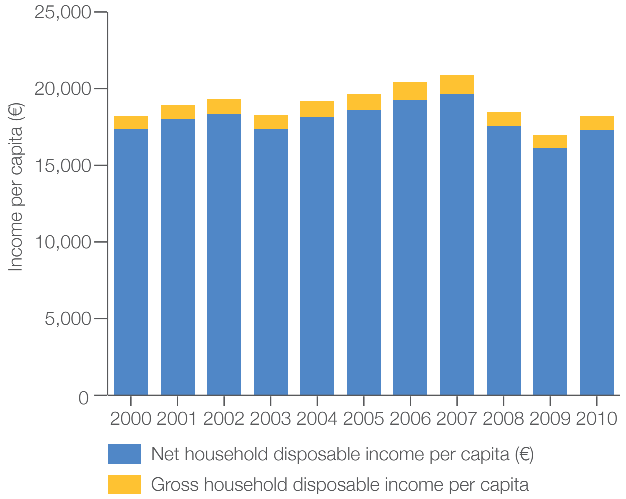
The UK's nominal GDP and hospitality sector have been growing in tandem since 2000, towards a peak in 2007. The decline in 2008 and 2009 was linked to the global economic downturn, which resulted in nominal GDP returning to just over 2000 levels and hospitality turnover dropping below the value at the start of the decade.

Inflation in the UK over the 2000 to 2010 period has grown at an average annual growth rate of 2.3%. Adjusting for inflation, the average annual growth rate in GDP over the period was -1.3%, and growth in the hospitality sector was -1.9%.

The UK's employment figures remained relatively stable throughout the period, increasing by 6% in the eight years to 2008 (a period of particularly low unemployment) and finishing the decade 4% up on 2000 levels.

Hospitality employment grew slightly more and achieved 10% growth to 2008. However, the economic downturn resulted in a significant fall in hospitality jobs, in line with the fall in turnover. This highlights the ability of the sector to help build economic growth, but also its sensitivity to falls in incomes and consumer confidence.

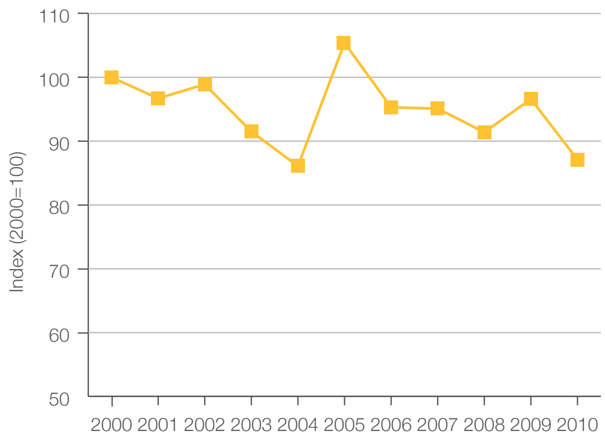
Real Net and Gross disposable income per capita EUR, 2000-2010



Source: Eurostat

Real net disposable income per capita in the UK has followed a similar path to UK GDP, remaining steady throughout the period before falling sharply in 2008 and 2009. The economic downturn has resulted in a significant fall in disposable income, which is directly related to a fall in consumer spending in the economy.

Tourism index, 2000-2010



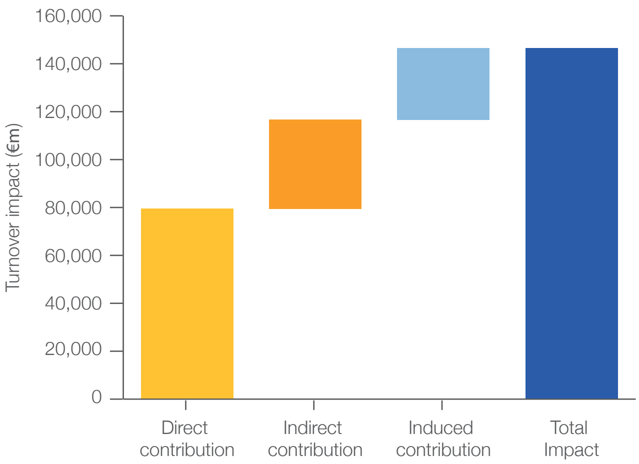
Source: Eurostat

The UK is an established tourist destination for visitors across the globe. Despite this, tourism trends in the UK have been relatively volatile over the 2000 to 2010 period. Tourism peaked in 2005, following the expansion of the EU but has since seen a general decline in terms of visitor numbers with tourism over the 2006 to 2010 period being lower in each year than that observed in 2000.

Economic Contribution of the hospitality sector

The total turnover supported by the hospitality sector in the UK is estimated to be €146.2bn. The UK's hospitality sector contributes almost €61.6bn of value added to GDP, 3.6% of the total in 2010, and supports approximately 2.7m employees (9.4% of the total workforce). The economic contribution of the hospitality sector in the UK is slightly higher than the European average. For every €1 spent by the sector, an additional €0.85 is spent in the supply chain and via employees' consumption (i.e. the 'direct' plus the 'indirect' and 'induced' effects).

Turnover of the hospitality sector, 2010

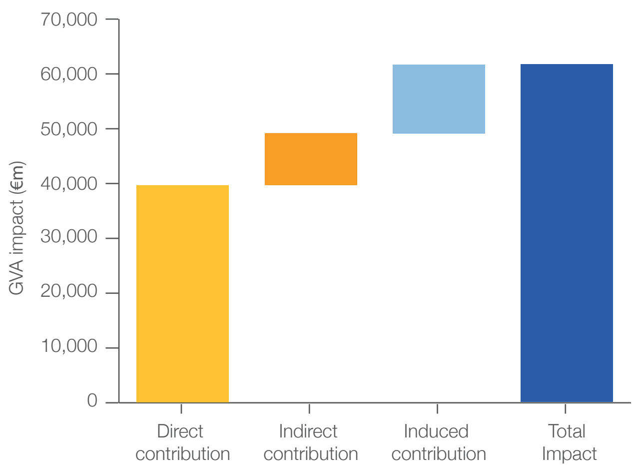


Source: Eurostat, EY calculations

The total turnover supported by the sector was €146.2bn in 2010. The UK has one of the lowest indirect output multipliers in Europe (1.47), so for every €1 spent by the sector, an additional €0.47 is spent in the supply chain (this only includes the supply chain effects and does not include the 'induced effect' referenced in the summary box).

This suggests that, compared to other European countries, a relatively high proportion of the inputs used in the hospitality sector in the UK are imported.

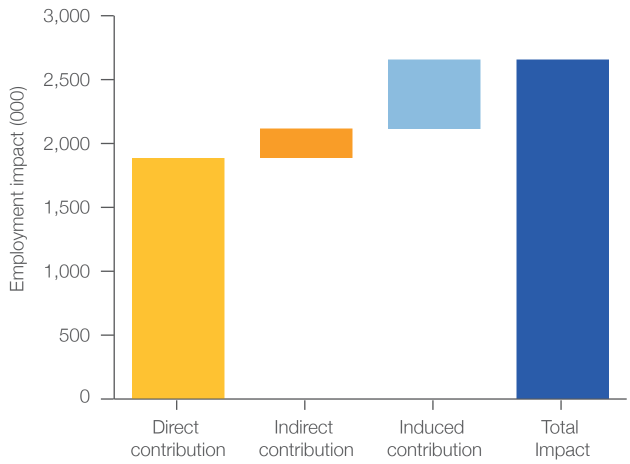
GDP impact of hospitality sector, 2010



Source: Eurostat, EY calculations

The hospitality sector contributes €61.6bn to value added in the UK, equivalent to 3.6% of GDP.

Employment impact of the hospitality sector, 2010



Source: Eurostat, EY calculations

In 2010, the hospitality sector directly employed 1.9m individuals. Including both the indirect and induced impacts, the total contribution of the hospitality sector to UK employment is an estimated 2.7m jobs. This is equivalent to 9.4% of total UK employment.

Regulation / Taxation

The standard rate of VAT in the UK is 20%, with no applicable reduced rates (the UK is one of only four European countries not to apply a reduced VAT rate to accommodation). The rate was increased from 17.5% in 2011 as part of the coalition government's plans to reduce the UK budget deficit.

There have been a large number of changes in the excise duty applied to alcoholic beverages since 2008. Scotland has introduced a minimum price of 50p per unit for alcohol, although this has not yet been implemented due to a legal challenge. In 2012 the UK Government also signaled its intention for the introduction of a minimum price per unit in England and Wales. A consultation on a 45p rate was undertaken. No further official announcements have been made.

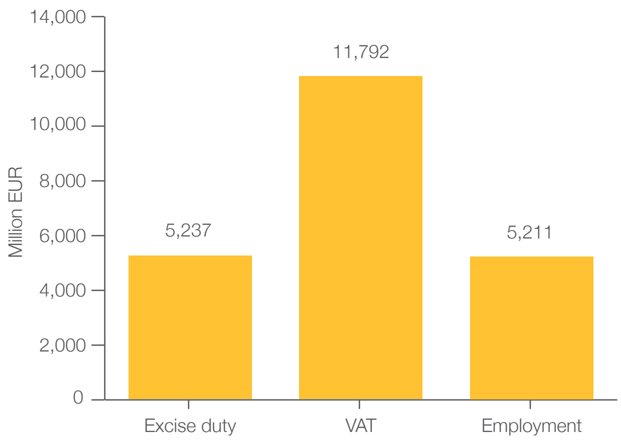
In the 2013 Budget, the UK government signaled its recognition of the pressures faced by the hospitality sector, by abolishing a beer duty escalator and introducing a 2% cut in beer duty. The duty escalator remains in place for wine and spirits. This change in taxation aims to slow the pace of widely reported pub closures in the UK, with beer sales being disproportionately important to on-trade channels, compared to wine and spirits which continue to be more likely be purchased from the off-trade.

Tax Receipts

The UK Hospitality sector is estimated to have contributed €22.2bn to the exchequer in 2010 from excise duty, VAT and employee related contributions.

Of this, €5.2bn was raised in excise duties arising from the sales of alcoholic beverages in the hospitality sector. The UK government also collected an estimated €11.8bn in revenue from gross VAT receipts in 2010 (i.e. not accounting for deducted VAT).

Tax receipts by type, 2010



Source: EY calculations

Taxes related to employees working in the hospitality sector are made up of income taxes and employer and employee social security contributions. Added together, this equates to €5.2bn in 2010.

In the 2013 Budget, the UK government introduced an employment allowance to exempt small businesses from national insurance contributions. Given the relatively high proportion of SMEs in the hospitality sector in the UK, it is likely that this change will lead to increased incentives for employment, once the allowance comes into effect in 2014.

Excise Duty

There have been a large number of changes in the excise duty applied to alcohol since 2008. There were incremental increases each year until 2013, when wine and spirits increased by 2% above inflation but beer duty was reduced slightly.

Beer duty is now £19.12 per % abv/hl. Duty on wine is £266.72/hl and the rate applied to spirits is £2,822 /hl pure alcohol. Previous increases in excise duty were due to the introduction of the duty 'escalator' by the UK Government in 2008, with an aim to curtail the binge drinking culture.

In the 2013 Budget, the UK government abolished the duty escalator for beer, and reduced the excise duty applied by 2%, in recognition of the importance of beer sales to a vibrant pub market (and the wider economic and employment benefits that brings).

The duty escalator remains in place for wine and spirits and is expected to continue until 2014/15. Although the impact of the 2013 decrease in excise duty for beers has not yet been captured, it is likely that it will act to stimulate demand in the on-trade (primarily from shifts in current consumption), to the extent to which the decrease is passed on to consumers through lower prices.

VAT and Reduced rates

Between 2000 and 2008, the standard VAT rate in the UK remained at 17.5%. Due to the global economic downturn in 2008, the UK government decided to decrease the standard VAT rate from 17.5% to 15% with the aim of stimulating consumer spending in the economy. The rate then returned to 17.5% in 2010 and further increased to 20% in 2011 in line with the government's austerity programme.

The UK has a reduced VAT rate of 5%, which was set in 1997. Unlike the majority of other European countries, the reduced VAT rate is not applied to the hospitality sector in the UK, which is only subject to the standard rate of VAT.

Other taxes

Restaurants and cafés need a licence to retail alcohol. These licences are administered at a local authority level although the cost of licences is set by central Government.

At the present time, no taxes on saturated fats or sugars have been implemented in the UK; however this has recently been called for by some public health professionals but has received relatively limited political support. Given that the introduction of such a tax would impact significantly on the hospitality sector, any further consideration of these taxes is likely to present a challenge to the sector in the future.

There are currently no tourism taxes in the UK.

Hospitality sector in focus

The hospitality sector in the UK finished the 2000 to 2010 period with turnover of €79bn, only marginally higher than the 2000 level, and 17% less than the 2007 peak. The food and beverage sector contributes over three quarters of the revenue in the hospitality sector and employs 80% of the employees (at 1.5m in 2010).

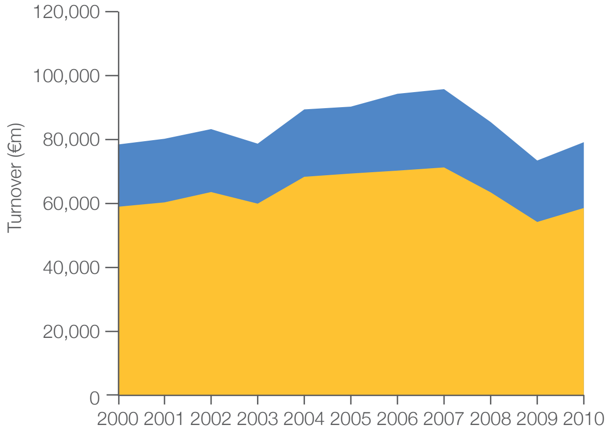
The UK has an established pub culture which is one of the largest in Europe with 44,400 enterprises operating in 2010, a fall of 5,500 from 2008 levels). Between 2008 and 2010, hotels suffered a fall in turnover of 7% to €15.7bn, representing 21% of the hospitality sector total.

In 2007, the UK government introduced a smoking ban in all public spaces. Although the smoking ban is thought to have been one factor behind the declining number of bars in the hospitality sector in recent years, it may have had a positive impact on restaurants and other hospitality establishments which serve food to a broader demographic of individuals.

In addition to the smoking ban, there have been a number of other regulatory issues which pose a challenge to the hospitality sector. These include relatively high licensing costs and the potential introduction of Late Night Levies, Early Morning Restriction Orders and minimum pricing regulations for alcoholic beverages (not yet implemented anywhere in the UK due to legal challenges).

Turnover in the hospitality sector

Hospitality sector breakdown, 2000-2010

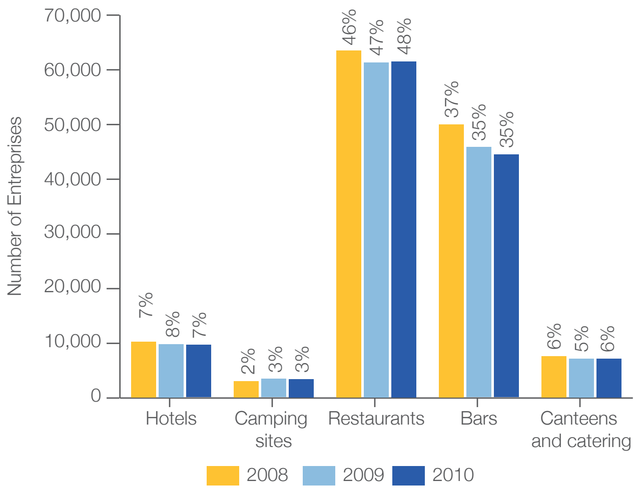


Source: Eurostat

The food and beverage sector contributes over three quarters of the revenue in the hospitality sector. Despite averaging moderate growth to 2007, significant declines in the subsequent years resulted in turnover only marginally above 2000 levels, at €79bn.

Enterprises in the hospitality sector

Number of enterprises by type, 2008-2010



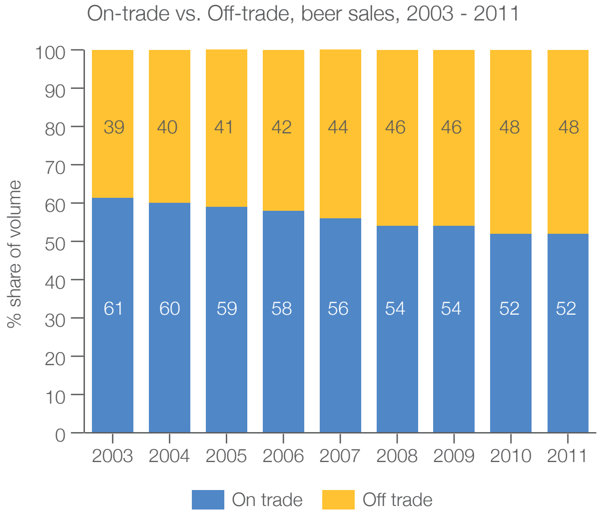
Source: Eurostat

Note: Percentage figures represent the proportion of the total number of enterprises in the hospitality sector which are made up of enterprises in each sub-sector. When added, percentages may not total 100% due to the omission of Other enterprises.

Between 2008 and 2010, the number of enterprises in the UK fell by over 8,600, with the majority of these in the bar sub-sector (5,500). The number of restaurants and hotels remained comparatively resilient, with 6% and 3% falls respectively.

It is important to note that any given enterprise may operate a number of different outlets, suggesting that the number of hospitality establishments in the sector would be considerably higher.

On-trade vs. Off-trade



Source: The Brewers of Europe

There has been a recent shift from on-trade to off-trade for beer sales in the UK. Since 2003 the off-trade has been better able to absorb much of the alcohol tax increases, leading to a widening price differential between the off-trade and the hospitality sectors. This has coincided with a fall in bars from 49,900 in 2008 to 44,400 in 2010.

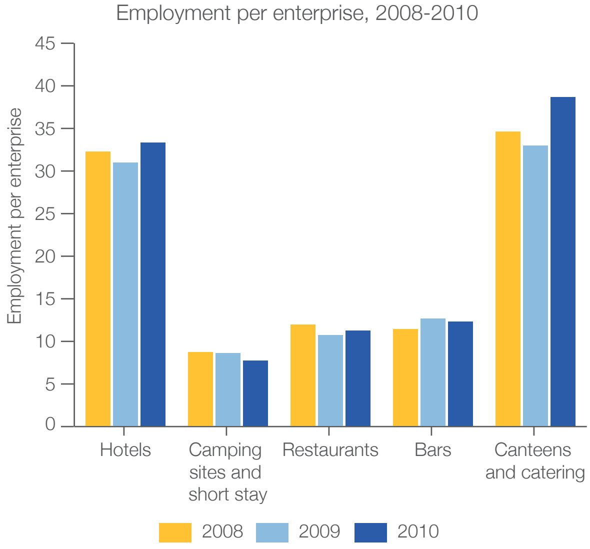
The increasing price differential has come at a time of depressed disposable incomes and future austerity, which is likely to further shift consumption towards the retail market.

In addition, an ageing population and increasing sophistication of the home entertainment market has led to a significant change in consumer habits.

Employment in the hospitality sector

Between 2000 and 2008, employment in the hospitality sector grew at an average annual rate of 1%. However, the economic downturn resulted in a significant fall in hospitality jobs, although at a slower rate than the fall in hospitality turnover (at -5% versus -7%). This fall in employment equates to 90,000 jobs, over half of which were lost in the restaurant sub-sector.

In 1999 the National Minimum Wage was introduced at £3.60 per hour for adult workers, rising to £6.19 by 2012. Since May 2004 there has been an influx of EU nationals to the UK, many of whom found employment in the hospitality sector, sustaining a flexible workforce.



Source: Eurostat

Enterprise Focus

BARS / PUBS

The UK has an established pub culture and the sub-sector is very different compared to on-trade outlets found in the rest of the EU (with the exception of Ireland). The sub-sector is one of the largest in Europe, with 49,400 enterprises operating in 2008. However, the number of enterprises has fallen by 11% from 2008 to 2010 to 44,400.

A number of factors may have contributed to this fall. For example, the global economic downturn led to a slowing down of growth in the UK between 2008 and 2009, leading to a drop in disposable incomes. On top of this, the UK has seen a shift from on-trade to off-trade in recent years – with off-trade increasing from 39% in 2003 to 48% in 2011, with consumers choosing to buy alcoholic beverages from retailers rather than pubs and bars.

Drivers of the increasing popularity for off-trade may include the smoking ban, which was introduced in the UK in 2007, the price differential between on- and off-trade establishments, demographic changes and the increasing sophistication of home entertainment.

The regulatory environment is likely to continue to prove challenging for the bars sub-sector in the UK. For example, licensing costs and the tax burden on alcoholic beverages in the UK are high relative to those experienced elsewhere, placing pressure on margins. However the recent removal of the beer duty escalator will act to counteract some cost pressure.

In addition, there are also plans to introduce Late Night Levies and Early Morning Restriction Orders which may act to increase costs, and suppress demand in the sub-sector.

Other leisure opportunities will provide continued competition for pubs, but there are also opportunities resulting from changes in consumer behaviour such as offering food and business services.

The minimum pricing for alcohol bill in Scotland received Royal Assent on 29 June 2012 and the minimum price has initially been set at 50p per unit. It has not yet been enforced due to a legal challenge from the Scottish Whisky Association who believes the law would break the UK's EU treaty obligations by restraining trade. In 2012 the UK Government also signaled its intention to introduce a minimum price per unit in England and Wales. A consultation on a 45p rate was undertaken. No further official announcements have been made.

RESTAURANTS

In the UK, restaurants contribute just over a third of turnover in the sector, while employing almost 40% of the hospitality sector's workforce. The number of restaurants operating in the UK has fallen slightly since 2008, but has since leveled off between 2009 and 2010.

The potential introduction of taxes on unhealthy food and beverages could push up prices in restaurants and see a shift towards eating at home. However the increased focus on healthy eating and transparent food sourcing also offers opportunities for restaurants to update their offerings and respond to consumer taste changes.

HOTELS

Hotels represent over one fifth of the hospitality sector in the UK, less than both bars and restaurants. The number of hotels operating in the UK in recent years has remained relatively flat over time, while employment per enterprise has increased by 3% from 2008 to 2010.

As mentioned previously, no tourism taxes are currently in place in the UK. However, two councils in the UK – Edinburgh and York – proposed a tourist tax on visitors staying in their hotels in 2011 to help raise local authority revenue. These proposals were both abolished in 2012 due to the potentially damaging effect on the hospitality sector in each city and due to uncertainties over the legal basis of the decision, but the possible introduction of a tourism tax in cities in the UK could be a future challenge for the UK hospitality sector.

Annexes

A. Methodology

EY was appointed by The Brewers of Europe to quantify the degree to which hospitality sector adds value to the economy and supports employment opportunities in each of the countries covered; and to identify policy drivers that could support future growth and job creation.

Countries included within the analysis

The analysis includes 31 countries in total, including all of the EU28 countries as well as Norway, Switzerland and Turkey.

Sources of information

In order to ensure comparability of data across the maximum number of jurisdictions, the analysis presented in this report is largely based upon sector level data from Eurostat. At the time of writing, hospitality level data is available up to, and including, 2010.

Sector level data and insight have also been collected from national and institutional statistics' websites and through a consultation exercise with key stakeholders in each country. These stakeholders include national members of sectoral representative bodies, The Brewers of Europe and HOTREC. Wider economic statistics have been collected from a range of sources, including Global Insight, Oxford Economics and the OECD. Where these have been used they are clearly labelled and care has been taken to ensure consistency with other datasets and definitions, where comparisons are drawn across countries.

Establishing the context

For each country in this report we review a range of economic measures which help to explain the performance of the hospitality sector from a more general perspective. These include national GDP, employment, disposable income and tourism trends. As well as the wider trends, a review of key regulatory and tax items is included. This provides a more sector specific assessment of how the operating environment has changed over time and the degree to which external changes have presented an opportunity or challenge to performance. In particular the report focuses upon VAT, excise duty, tourist tax, sugar tax and fat tax levels and movements.

Defining the hospitality sector

By nature, the hospitality sector is broad and could include a wide range of operations, which, arguably, provide hospitality services as their primary offering, or as part of a wider service provision (for example, food and beverages provided on an aircraft). To enable a consistent comparison, and to focus on the primary contributors to the sector, the following sub-sectors have been defined and included:[1]

Accomodation:	Food and beverages
Hotels	Restaurants
Camping sites and short stay	Bars (inc. pubs or cafés)
Camping sites, including caravan sites	Canteens and catering
Other provision of lodgings	Canteens
	Catering

Identifying the economic impact of hospitality

Benefits to the economy can be encapsulated in a number of ways, including; the total output generated through turnover (which increases the total number of transactions and economic activity), the direct value-added delivered to the economy (through profits), revenues generated for government (through direct and indirect taxes) and the employment opportunities provided.

1 These sub-sectors are consistent with the Eurostat categories

As already discussed, the impact of the sector is not limited to its own direct outputs. The economic activity it supports in its own supply chains as well as the wider consumption in other sectors should also be accounted for. These effects are defined as:

- Direct Impact: Turnover and employees directly relating to hospitality enterprises;
- Indirect Impact: The turnover and employees supported in the hospitality sector supply chain; and
- Induced Impact: The turnover and employees supported by employees spending their salaries on other goods and services.

Taking account of the Direct, Indirect and Induced Impacts, the following key metrics have been calculated for each country and for the wider European economy:

- Impact upon economic output: Measure of the total output (as turnover) related to the sector;
- Contribution to GDP: Measured as the Gross Value Added (GVA), reflecting profitability related to the sector; and
- Employees supported: Total employment supported by the sector.

Approach to calculating the overall sector contribution

In calculating the measures identified above, EY developed economic multipliers for each country in scope. We use input/output tables, published by Eurostat, for each of the countries covered in the study, to calculate a set of indirect and induced economic multipliers on a sectoral basis. These multipliers capture economic interdependencies within the hospitality sector supply chain and the wider economy, and thus enable an estimation of the indirect and induced impact on GDP.

Input-output tables are a national accounting tool that capture the flow of goods and services between industries within an economy as well as imports and exports and the contribution of capital and labour to economic activities. Input-output tables can therefore be used to map an industry's supply chain through the calculation of input coefficients. Such coefficients capture what share of the value of production in each industry is accounted for by inputs acquired from other industries.

Using such coefficients, output multipliers can be calculated that capture the additional demand generated in each industry in the economy if the production is increased by one unit of currency in a specific industry. The mathematical process through which multipliers are obtained is known as the Leontief Inverse Matrix.

Similar multipliers are also derived for GVA and employment, by accounting for, amongst other things, the role of imports in the supply chain and the level of disposable income (i.e. that income available after taxes etc) in each country.

B. Glossary of terms

Definitions and key terms used in the report are set out below:

ACCOMMODATION
Accommodation, Eurostat NACE Rev.2 code I55, includes hotels and similar accommodation, holiday and other short-stay accommodation, camping grounds, recreational vehicle parks and trailer parks and other accommodation.

BARS
Bars are defined as beverage serving activities under Eurostat NACE Rev.2 code I56.30. This captures all establishments (bars, night clubs etc.) whose primary activity is a drinking establishment.

CAMPING SITES AND SHORT STAY
Camping sites and short stay are defined enterprises whose principal activity is the provision of accommodation via camping sites and short stay under Eurostat NACE Rev.2 code I55.2.

CANTEENS AND CATERING
Canteens and catering are defined as enterprises whose principal activity is the provision of food via canteens and catering services under Eurostat NACE Rev.2 code I56.2.

COMPOUND ANNUAL GROWTH RATE
Compound Annual Growth Rate (CAGR) is the year-over-year growth rate of a value over a specified period of time.

ENTERPRISE
An enterprise, as defined by Eurostat in the Structural business statistics (SBS), carries out one or more activities at one or more locations and may comprise one or more legal units. When an enterprise is active in more than one economic activity, then the value added and turnover that it generates, the persons it employs, and the values of all other variables will be classified under the enterprise's principal activity; the principal activity is normally the one that generated the largest amount of value added[1].

EU28
The 28 Member States of the European Union, as at 1 July 2013:
Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom

EUROPE
For the purposes of the analysis in this report, and unless otherwise stated, references to "Europe", including aggregate statistics relating to economic contribution (European turnover, European employment etc) will relate to the 28 Member States of the European Union, as at 1 July 2013.

EXCISE DUTY
Excise duties are indirect taxes on the consumption or the use of certain products. In contrast to VAT, they are mainly specific taxes, in other words, expressed as a monetary amount per quantity of the product.[2] The most commonly applied excise duties are those on alcoholic beverages, manufactured tobacco products and energy products.

FOOD AND BEVERAGE SERVICE ACTIVITIES
Food and beverage service activities, Eurostat NACE Rev.2 code I56, includes restaurants and mobile food service activities, event catering and other food service activities and beverage serving activities[3]. Only enterprises for which the provision of food or beverages is the principal activity are covered by this code.

GROSS DOMESTIC PRODUCT (GDP)
GDP is a basic measure of a country's overall economic health. As an aggregate measure of production, GDP is equal to the sum of the gross value added of all residential units (i.e. industries) engaged in production, plus any taxes, and minus any subsidies, on products not included in the value of their outputs[4].

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1 Structural Business Statistics, Eurostat

2 General Overview, Excise duties on alcohol, tobacco and energy, Taxation and Customs Union, European Commission

3 Ibid

4 Glossary: Gross domestic product (GDP), Eurostat, European Commission

GROSS VALUE ADDED (GVA)
Gross Value Added is a measure of the additional economic contribution generated by the hospitality sector to the overall economy

GROSS VALUE ADDED AT MARKET PRICES
GVA at market prices is output at market prices minus intermediate consumption at purchaser prices[1].

HECTOLITRE (HL)
A hectolitre is a metric unit of volume or capacity where one hectolitre equals 100 litres.

HOSPITALITY SECTOR
The hospitality sector can be defined as NACE Rev. 2 code I – Accommodation and Food Service Activities from Eurostat's statistical classification of economic activities. Code I55 – Accommodation, includes hotels and similar accommodation, holiday and other short-stay accommodation, camping grounds, recreational vehicle parks and trailer parks and other accommodation. Food and beverage service activities, code I56, includes restaurants and mobile food service activities, event catering and other food service activities and beverage serving activities[2].

HOTELS
Enterprises whose principal activity is providing accommodation services via a hotel are defined as hotels under Eurostat NACE Rev.2 code I55.1.

INDEX/INDICES
The indices used in this report base the first year of analysis at 100. Subsequent changes over time can be measured by the relation of the new value to 100.

NATIONAL DISPOSABLE INCOME
National disposable income is the sum of the disposable income of all resident institutional units / sectors. Gross (or net) national disposable income measures the income available to the nation for final consumption and gross (or net) of saving. It equals gross (or net) national income (at market prices) minus current transfers in cash (taxes on income and wealth, social contributions, social benefits other than social transfers in kind, and other current transfers) payable to non-resident units, plus transfers receivable by resident units from the rest of the world[3].

NOMINAL
A value expressed in monetary terms for a specific year or years, without adjusting for inflation.

ON-TRADE
Sales through (licensed) pubs, clubs, bars, restaurants et cetera, also called the hospitality sector[4].

OFF-TRADE
Sales through wholesale and retail (shops, supermarkets and other outlets)[5].

PLATO
Plato is a hydrometer scale used to measure the density of beer in terms of percentage of extract by weight[6].

REAL
A value expressed in monetary terms for a specific year or years, adjusting for inflation.

RESTAURANTS
Restaurants are defined as enterprises whose principal activity is the provision of food in a restaurant under Eurostat NACE Rev.2 code I56.1.

SOCIAL CONTRIBUTIONS
Social contributions are paid on a compulsory or voluntary basis by employers, employees and self- and non-employed persons[7].

1 Glossary: Gross value added at market prices, Eurostat, European Commission

2 Eurostat statistical classification of economic activities

3 Glossary: National disposable income, Eurostat, European Commission

4 The Brewers of Europe, The Contribution made by Beer to the European Economy, September 2011

5 Ibid.

6 Beer Dictionary & Glossary of Terms, www.craftbeer.com

7 Glossary: Social contributions, Eurostat, European Commission

TURNOVER OR GROSS PREMIUMS WRITTEN

Turnover comprises the total invoiced by the observation unit during the reference period, and this corresponds to the total value of market sales of goods and services to third parties. Gross premiums written is sometimes used as a proxy for turnover in some sectors of the economy, such as insurance.

VAT

Value added tax (VAT) is a general, broadly based consumption tax assessed on the value added to goods and services. VAT is charged as a percentage of price, meaning that the actual tax burden is visible at each stage in the production and distribution chain[1]. Member states can apply reduced rates of VAT to certain goods and services, including sub-sectors of the hospitality sector.

1 Glossary: Value added tax (VAT), Eurostat, European Commission

C. About EY
Assurance | Tax | Transactions | Advisory

About EY

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