

# Economic Consequences of the COVID-19 Pandemic for the HoReCa Companies in the Romanian Black Sea Coast Area

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## Abstract

*A social-economic phenomenon with a major impact on economies - tourism is unquestionably anchored to the life of the society with which it is in a direct relation of inter-conditionality. The COVID-19 pandemic has clearly demonstrated that specialized literature has not included so far public health among the determining factors affecting the tourist phenomenon, and implicitly the life of the society. Thus, nations have been able to assess the dramatic economic consequences of this pandemic generated by the Sars-CoV-2 virus for all the sectors for almost a year.*

*This paper is considering the evaluation of the economic consequences that the pandemic generated in the HoReCa sector of the Romanian coast area. These negative consequences for the business environment have different intensities depending on the geographical areas and we will see that in the coastal area the statistics show a smaller decline.*

**Key words:** HoReCa, COVID-19 pandemic, economic consequences

**J.E.L. classification:** I15, L83, H12

## 1. Introduction

The intricate links of the hospitality industry and the economic, social, cultural, and political implications of this industry justify the constant preoccupations for knowing its content, sensitivity and incidents in order to understand its functioning mechanisms.

Tourism – as it is generally understood, focuses on those trips for pleasure or business (*leisure & business*). Marketing activities are considered (information, persuasion, promotion, reservation, mediation, etc.) for the tourists in and to certain tourist destinations, as well as accommodation and related services (Food and Beverages + transport + entertainment) – including, therefore, tourist leisure activities, offering tours and guidance, etc. The tourism industry operates through a vast network of interconnected industries and related services.

The HoReCa sector is the core of the hospitality industry and not its equivalent, however the dynamic analysis of this sector is similar to the industry it belongs to.

In the last year, this sector was one of the most affected by the COVID-19 pandemic, due to the restrictions imposed by the global authorities and it seems to be unable to survive without financial assistance from the states, both in order to save businesses and for employee retention.

The pandemic meant the cancellation of flights, the closure of restaurants and cafes, hotels opened with restrictions, the closure of museums, theme parks, i.e., everything that means components of the hospitality industry and the HoReCa sector.

## 2. Theoretical background

The current stage of development of the society has subjected the environment to two types of threats: one which is the direct consequence of population growth and urban expansion, of the rapid growth rate recorded in the industry and other fields of activity, increased traffic and transportation and communications systems, the overexploitation of the natural resources, and another one, much

less aggressive and predominantly seasonal, arising from tourism and leisure activities (Buhalis, D. 2000).

Currently, the specialized literature, studies, analyses carried out in this sector revolve around three terms: the tourism industry, the hospitality industry and the HoReCa sector. Therefore, it is necessary to clarify these terms from a conceptual point of view, although there is no common acceptance in this regard.

The World Tourism Organization (WTO) defines tourism as the activities related to people who *“travel and stay in places outside their usual environment (outside the place of residence) - for a maximum of one year consecutively & no less than 24 hours - for leisure, as well as for business and other purposes”*.

The hospitality industry is represented by the tourism industry, support activities and conference organization (Stanciulescu G., 2003). Thus, we can identify the following: activities in the service industry - accommodation, food / beverage (catering) services, event planning, theme parks, transport and everything else which means entertainment for tourists. Americans include in their Standard Industry Classification (SIC) most of these activities and entities - from accommodation, to entertainment, carriers and travel agencies. Hospitality therefore includes accommodation and management of restaurants, cafes, catering services (activities in the public food industry - F&B) operations, sales and marketing of related hospitality services, including various forms of recreation offered to the guests / tourists.

HoReCa is the hospitality industry sector which brings together units which (in general) have in common the fact that they prepare and serve food and beverages. It represents the syllabic abbreviation of the words Hotel / Restaurant / Catering and as a term it is used in countries such as Spain, Belgium, Portugal and Romania.

The factors which determine the tourist phenomenon, different in nature and role, have a global action or particularize a certain form or component of the tourist activity (Snak O., 1976) Their mutual inter-conditionality, the simultaneity of their action enhance the final effect, at the same time making it difficult to interpret the contribution of each one (Minciu R., 2000). Economic growth, supply, demographic changes, and leisure (Py P, 1996) are most often presented in the specialized literature as determinants of the tourism phenomenon. However, *the year 2020 has shown that public health is the most important determining factor of the tourism phenomenon*.

Human health is crucial in the decision to travel, in the unrestricted conduct of activities related to the hospitality industry and economic activities in general. Tourism is a human experience, a social behavior, a geographical phenomenon, a business, an income, an industrial type of complex (Cosmescu I., 1998).

Thus, the sanitary constraints due to the COVID-19 pandemic closed or restricted businesses, so that the administrators had to find innovative solutions for the preservation of the businesses. These solutions included: maintaining customer interactions in the restaurants with the help of digital ecosystems - mobile applications, new payment methods, personalized experiences based on consumer behavior or rethinking entire business models. It is taken into account the opportunity of time value of money, according to which a sum of money owned in the present has a greater value than the value of the same sum received at a moment in the future (Munteanu I, Bacula M., 2017).

### **3. Research methodology**

In the present paper, we elaborated a quantitative research, in which we collected information and data from the national and international statistics, from specialized literature and we've analysed these points of view regarding pandemic evolution and its effects on global and national economy. We will carry out an analysis of the Covid 19 consequences at European, national and then at the coastal level, an analysis which will have some particularities.

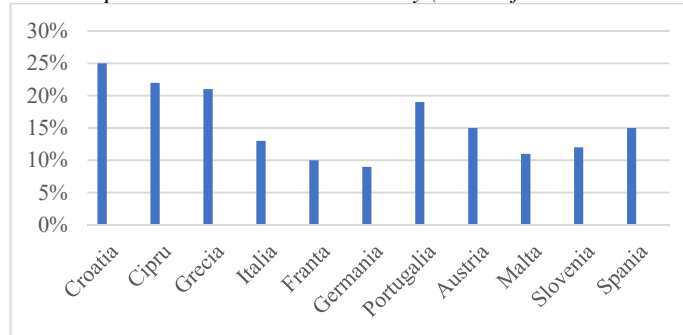
### **4. European tourism on the brink of survival**

The coronavirus pandemic puts an unprecedented, major pressure on the European hospitality industry. The tourism sector includes the HoReCa companies, which are by far the ones which have had and are far from having ended the biggest losses since their establishment.

The suspension of most domestic and international travel has caused a dramatic drop in revenue and has created liquidity problems for all tour operators. The uncertain outlook for both tourists and entrepreneurs leads to short-term planning and requests addressed to the governments to support this industry.

By far the most affected countries are the ones which are most dependent on this sector (Fig. 3.1.) Thus, Croatia, Cyprus, Greece, Portugal, Spain incurred major losses due to this sector, with a share in GDP between 15% and 25%. However, in other countries, such as Italy, France, Germany, Austria, Malta, Slovenia in which the share in GDP is between 10% and 15%, losses are not negligible either.

Figure no. 1. Countries dependent on the tourism industry (share of tourism in GDP)



Source: Own data processing based on Eurostat Information

At the level of the European Union, the contribution of tourism is summarized by several key elements:

- 10% of EU's GDP;
- around 2.4 million entities, of which approximately 90% are SMEs;
- 40% of international arrivals belong to the EU;
- 85% of European citizens spend the summer season inside the Union;
- 12% of the available labor force;
- about 23 million jobs.

The consequences of this pandemic have been major and the worst in the last 50 years since, along with the severely affected economic activities, psychological consequences were added, which have affected people's quality of life, not to mention the dramas that many European citizens have gone through, especially in the countries where many deaths occurred (Italy, Spain, United Kingdom, Germany).

The consequences of this pandemic for the tourism industry can be summarized from statistics at the European level, as follows:

- the reservations dropped by 60 - 90% compared to similar periods in the previous years;
- about 6 million jobs were lost;
- losses for hotels and restaurants due to closure or traffic restrictions amounted to approximately 85%;
- long-distance rail transport recorded losses of approx. 85%;
- cruise ships and air transport recorded a dramatic decrease of about 90%.

This is a summary of the consequences of the pandemic for this sector and that is why the EU will have to find as soon as possible the life-saving solutions for this sector through a series of guidelines in order to ensure a gradual and coordinated reopening of the tourist services and units as soon as the health situation allows it, while ensuring the strict conditions for the protection of the health and safety of the travelers, as well as of tourism employees from all over Europe.

## 5. Romanian tourism, saved by Romanian tourists

The COVID-19 pandemic was a major shock for the global economy, but also for the national economy. In this context, the hospitality industry, the accommodation units, food units, travel agencies were among the most affected branches of the national economy.

The hospitality industry in Romania has not deviated from the European trend either, being severely affected by the crisis. With several thousand employees, the restaurants focused on deliveries and package orders through their own platforms or partnerships with digital delivery platforms, but also on new lines of business, such as the creation of semi-prepared packages or special menus for certain occasions.

A study conducted by tourism employers' associations, based on the financial statements submitted to the National Agency for Fiscal Administration for the year 2019, estimates that the impact of the HoReCa tourism industry on GDP is 5.07%, 3.42% direct financial impact - added value; 0.91% social impact – employees’ salaries and consumption contribution; 0.74% indirect financial impact - suppliers and investments.

According to the official statistics, provided by the National Institute of Statistics, the consequences of this pandemic are reflected as follows:

Table no. 1. The evolution of certain indicators specific to the hospitality industry in the first 6 months - 2019/2020

Indicator	Decrease
Total number of overnight stays, Romanian and foreign, in the tourist accommodation units	50%
Overnight stays of foreign tourists	80%
Turnover - accommodation units	36.8%
Turnover – food supply units	33.5%
Turnover - travel agencies	60.5%

Source: Own data processing based on INS information monthly reports

Analyzing the statistical data, we find that Romanian tourists saved Romanian tourism, since 96.7% of arrivals were represented by Romanian tourists, while foreigners represented only 3.3%. Regarding the average length of the stay, in July 2020, for Romanian tourists it was 2.7 days, while for foreign tourists it was only 2.2 days.

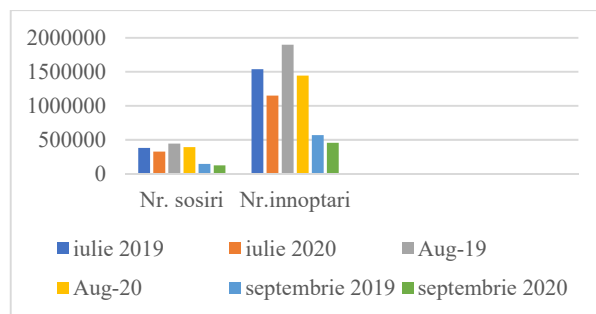
Even so, Romanians rediscovered Romania as a tourist destination, Romanian tourism took advantage of the plus factor offered by the canceling / limiting of the international flights and exploited the huge tourist potential, not efficiently exploited until now.

## 6. The impact of the COVID-19 pandemic on HoReCa companies in the Black Sea Coast area

The year 2020 was an atypical one from the point of view of the tourist traffic flow, since there were traffic restrictions, areas with different epidemiological risks, so that the evolution of the number of tourists was difficult to estimate.

The 2020 summer season started relatively late, the extension of the state of emergency until the beginning of June being the main reason. Consequently, the summer season totaled 3 months, July, August and September, which led to a decrease of about 30% -35% in the number of tourists compared to the 2019 season. In September, the hotels were opened, had an occupancy rate of about 80%, most tourists using holiday vouchers as a form of payment, which shows that public sector employees were the ones who visited the coast during this period.

Figure no. 2. The evolution of the number of arrivals / overnight stays in the tourist accommodation units on the seaside



Source: Own data processing based on INS information monthly reports

Romanian tourists preferred the Romanian seaside and the Danube Delta for spending the holidays, according to INS data. Thus, in the resorts on the Romanian coast, in July there were 34.6% of the total number of tourists in accommodation units in Romania, compared to 25.5% in July 2019 and in August there were 29.1 % of the total number of tourists in accommodation units in Romania, compared to 26% in August 2019.

Regarding the number of tourist arrivals on the coast in the 2020 season compared to 2019, there is a decrease, but not a significant one considering the declining rates at national or European level. Thus, in July, the number of tourists decreased by 56,608, which meant 14.8%, in August there were 52,417 less tourists (11.8%) and in September 20,671 less tourists (14.2%).

Regarding overnight stays, the situation is similar to the number of arrivals, in the sense that in July they fell by 25%, in August by 24% and in September by 20%.

All this decrease in the number of tourists this year also affected the turnover of the restaurants, this year tourists focusing more on holiday apartments and villas where they had facilities for cooking rather than choosing large hotels. Less affected were the restaurants with terraces, in this case only the limitation of the number of tables caused a reduced turnover.

Another consequence of the pandemic for this sector was the decrease in the number of jobs, this activity restriction requiring practically a smaller number of employees.

## 7. Conclusions

2020 was a year in which the world changed suddenly, entire fields of activity were resized and struggled to survive. Among the determinants of the tourist phenomenon we can put the public health on the first place, the epidemiological factors being from now on those which will decisively influence the hospitality industry. Europe, the largest receiver and sender of tourists, recorded major losses this year, with a domino effect in several sectors of the European economy.

Regarding the tourist accommodation units, the year 2020 has meant for all Romanian tourists changing their habits in choosing the tourist destination, and here we refer to less occupied areas, houses, holiday apartments, pensions, and small hotels capable of ensuring rigorous health safety and offering food preparation possibilities in the respective locations. All this, to the detriment of large hotels and restaurants which have had to find innovative solutions in order to face the biggest challenge in recent years.

One of the "positive" effects of this pandemic was the fact that Romanian tourists rediscovered Romania as a holiday destination, the coast occupying the first place in the tourists' preferences this year, the decrease in the number of tourists in this area being well below the average recorded by other states or by other areas of the country.

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