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Report Name: Impact of COVID-19 on the Czech Tourism and Food Service Sectors

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Post: Prague

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Report Highlights:

The Czech tourism and hotel/restaurant industries have been significantly impacted in both the near and long-term as a result of COVID-19 restriction measures. Although the Czech government seeks to prepare and implement policies to support recovery of these sectors, many small and medium-size entrepreneurs are risking going out of business. This report provides a general assessment at the timeline for the anticipated restart of the Czech economy and relevant sectors. And while initial economic impacts of the pandemic crisis are already obvious, the final price remains to be revealed later. Post will continue to monitor the situation in the sectors to provide more accurate updates.

Czech Republic – Favorite Tourist Destination

For last 30 years the Czech Republic has become one of the major tourist destinations in Europe, receiving 10.6 million foreign visitors' arrivals in 2018, equal to the local population. The country ranks the 10th on the list of outbound tourism destinations in the European Union (EU), with Spain, Italy, and France on the top. As a result, both the tourism and food service sectors are valuable sources of income for the Czech economy. Income from tourism valued CZK 162 billion (\$7.7 billion) in 2018. Typically, there was an average 4-5 percent year-on-year increase in arrivals of foreign tourists in the past, however, the capital city of Prague recorded 12 percent tourist growth in 2018.

Prague, followed by other regions, especially Southern and Western Bohemia, are popular tourist destinations throughout the year with July-September marking the high season. Constantly growing numbers of tourists used to be a driving force for further expansion of the hospitality sector, mainly hotels, restaurants, and bars. New and unusual travel, lodging, and gastro concepts were booming and setting new trends for the future.

Prior to the COVID-19 crisis, the contribution of the tourism to the Gross Domestic Product (GDP) used to fluctuate around 3 percent in the long term. Nevertheless, due to its cross-sector nature, it relates closely to other industries including the food service. Thus, if all indirect effects are taken into account, the tourism accounted for about 7 percent of the GDP.

Both tourism and food service provide more than 400,000 jobs (8 percent share of the total employment) until present.

COVID-19 Threat

The sudden outbreak of the COVID-19 pandemic caught many countries unprepared. As the situation worsened around Europe, the Czech government acted quickly to resist extensive spreading of the disease while putting unpredicted regulations and restrictions in place basically overnight. The government declared the state of emergency on March 12, 2020. They ordered people to stay at home and many businesses to close completely or to switch to a limited-operation mode.

All shops except for groceries, pharmacies, and fuel stations were closed. At first, the government's exact wording was a ban of "presence of public in restaurants" interpreted by some media as closing down of restaurants and allowing only fast food places to remain in operation (unless they are in shopping malls). Some other media concluded that restaurants could stay open and prepare food for people to take away.

As it turned out later, the plan indeed managed to avoid an uncontrolled growth of new cases and allowed for the Czech health care system to make itself ready. As of May 26, the number of confirmed cases totaled 9,004, with deaths at 317 and recoveries at 6,182. Nevertheless, the total price of massive economic restrictions to be still paid is expected to be very high.

The Czech hotels, restaurants and institutional service (HRI) sector was one of the first to be heavily hit by the pandemic. All hotels and restaurants, as well as many institutions were ordered to be shut down. This action resulted into a snowball effect, impacting HRI suppliers, some of which were supplying mainly to the HRI sector. Not only the demand for food supplies suddenly stopped, many bills for already delivered items remained unsettled. Due to closing the state borders, in-country travel restrictions, events cancellation, and closing of all tourist places of interest, the tourist industry suddenly stopped at the time of make-readies for the high season.

Impact of the State-of-Emergency Restrictions on Tourism and Food Service

- 75 percent of restaurants closed, 25 percent operating in limited opening hours and the food-take-away only mode for the total period of 72 days (March 14 – May 24)
- 95 percent of hotels and other tourist accommodation establishments closed
- 95 percent of spa facilities closed
- 100 percent of travel agencies closed (Czech travel agencies reported more than 1 billion USD value of prepaid services for the 2020 season)
- Total halt of tourist business, a low chance for a quick restart of incoming tourism
- All congresses, commercial, sport, cultural, and social events cancelled
- 100 percent of tourist information centers and tourist-focused places of interests closed



Current Situation

The economic crisis caused by COVID-19 pandemic has painfully affected Czech tourism and all related sectors. For example, Czech spa industry has experienced a decline of sales by 60 percent during the first five months of this year and reports loss worth hundreds of millions CZK. Long-distance flights, bringing almost 0.5 million tourists from China and the US last summer disappeared.

Although the Czech government seeks to prepare and implement policies to support recovery of the tourism industry, small and medium-size businesses especially are already facing the real possibility of going out of business. First estimates are for more than a 75 billion CZK (\$3.4 billion) revenue loss in the tourism and food service sectors due to pandemic restrictions. Professional associations, such as Czech Confederation of Commerce and Tourism and Association of Hotels and Restaurants, appeal to the government that the current situation is serious and urgent. They are critical of the Czech government's support, which they regard slow and insufficient. According to their analysis, as many as 30 percent of tourism-related-sector employees might eventually lose their jobs unless the industry gets an immediate and efficient support. They point out that governments in neighboring countries, Austria and Germany, are much more responsive and aware of necessary financial relief measures to let their tourism sectors survive. They have succeeded in making the government approve on the post-crisis tax package, which will decrease value added tax for from 15 to 10 percent on lodging, culture/sport event tickets, and ski-lifts. Additionally, a 3-month relief on mandatory social payments has been also granted to smaller businesses with less than 50 employees, which is an important benchmark for the tourism-related sector. Both immediate and long-term marketing support for domestic tourism, e.g. state-subsidized benefit vouchers to encourage Czechs to spend their vacation in the country, is necessary to offset for less incoming tourists.

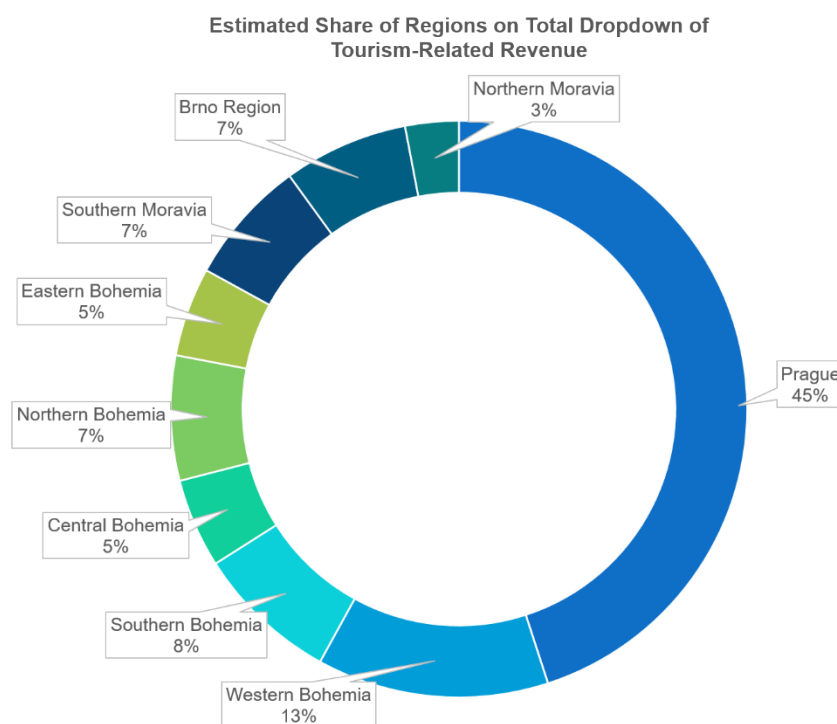
Restaurants were permitted to open their outdoor space such as summer gardens and patios on May 11. The interiors of restaurants and other dining or drinking establishments might have opened on May 25, 2020, but only between 6AM and 11PM and under strict conditions. These include 2 meters of social distancing and table setup, intensive cleaning and disinfection procedures, mandatory wearing face masks for personnel (for guests only when leaving the table), and preference for non-contact payments.

What to Expect in Near Future?

Tourism-related businesses are expected to face a revenue decline of at least 47 percent in 2021. However, it can be as much as 80 percent depending on circumstances and a specific location. The impact will vary considerably by region. Reduced foreign tourist numbers will hit the HRI sector the hardest especially in Prague and Western Bohemia. Please see the chart below for details.

The number of nights spent in the country by non-residents are expected to decline to less than nine million in 2020, down 70 percent from almost 30 million in 2019. Since international tourism in the Czech Republic will decline due to ongoing travel restrictions and travelers' fears amidst the threat of COVID-19, the local HRI sector, so far extremely oriented to and dependent on foreign visitors, will now have to focus on domestic guests. This trend can be already observed in Prague. Its busiest downtown restaurants, in the past flooded by foreign tourists at this time of a year, dropped their prices by 30-60 percent to make their service affordable for locals. The positive news is that, according to

recent public polls, almost 90 percent of Czechs prefer spending their 2020 summer holiday at home. Therefore, Czech guests will at least partially compensate for revenues from incoming tourism.



Consumer considerations for booking hotels and dining out will now include besides total costs the overall cleanliness of the venue. The HRI sector will need to invest funds in sanitization procedures to comply with governmental instructions. The total number of venues will most likely shrink, leaving behind fewer hotels, resorts, and restaurants. Once the summer holiday season is over, a lower consumers' demand for hospitality services can be expected due to reduced households' income and a subsequent decline of non-essential expenses.

At the present time, the COVID-19 pandemic seems to be under control and the government continues to ease restrictions to kickstart the economy. Like other EU countries, the Czech Republic will return to a normal day-to-day life step by step. There is no doubt however, that the COVID-19 outbreak experience will remain as a concern and will have a significant impact on Czech tourism's future.

Sources: Czech Statistical Office, Czech Ministry of Health, Czech Ministry of Regional Development, 2019 CzechTourism Annual Report, Czech Confederation of Commerce and Tourism, daily press

For additional information on the impact COVID-19 has had on Czech food and agribusinesses you might find the GAIN reports below interesting:

[COVID-19 Impacts on the Czech and Slovak Agriculture](#)

[COVID-19 Impact – Seasonal Agricultural Workers Missing in Czech Agriculture](#)

[COVID-19 - Czech Government Announced a Plan for Relaxing of Restrictive Measures](#)

Attachments:

No Attachments.