

# THE BACK-OFFICE OF CALCULATING TRAVEL SERVICE INDICATORS

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According to the balance of payments methodology, travel services are defined as the purchase of goods and services in the country of visit with the length of up to 12 months. Travel services do not include the costs of international transport to the country of destination; these are shown in the balance of payments under transportation services (passenger transport). Students and patients requiring long-term treatment make an exception in the methodology. They are always considered as those staying temporarily in a foreign country irrespective of the duration of their stay.

A key concept in the balance of payments is **residency**. In the balance of payments, a resident is a person whose economic interests are related to the economy of a respective country for a longer term. Conventionally, "longer term" stands for at least 12 months and economic interests are regarded as possession of immovable property and family ties in this country.

Estonia's balance of payments has now been compiled for fifteen years. The volume of travel services has significantly increased over this period: exports of travel services (credit) by 39 times and imports (debit) by 32 times. Travel services occupy a central position in Estonia's balance of payments because their constant surplus helps to offset the foreign trade deficit: in 1995–2001, the surplus on travel services accounted for 40% of the foreign trade deficit (see Figure 1). On a year-on-year basis, the share of travel services surplus in the balance of services was the largest in 1996 (74%) but has been declining since to 42% in 2006 because the share of exports has been shrinking and that of imports growing.

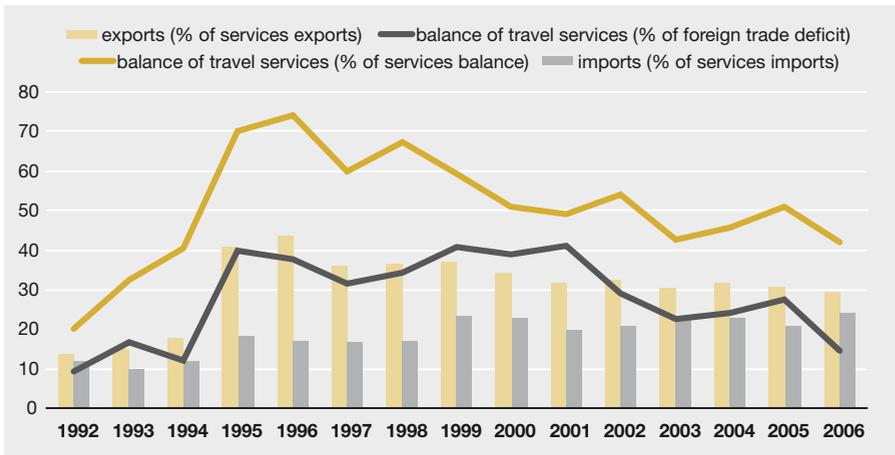


Figure 1. Share of travel services in Estonia's balance of payments (%)

## **CHOICE OF METHODOLOGY**

Travel services differ from other services included in the balance of payments in that they are not necessarily purchased from one single seller and the consumer contacts the provider to get the desired goods and services. Thus, travel services contain different types of services and purchases of goods, which creates difficulties in the compilation of respective statistical data.

Travel services can be paid for before the trip through travel agencies; during the trip to the country of destination (transport costs or expenses during transportation), or in the country of destination by paying for goods and services.

A large share of travel expenses are paid to travel agencies that arrange travellers' transport to the destination and their accommodation. These expenses can be traced using tourism companies' reports. This allows distinguishing the costs related to the international transport of the passenger to the country of destination. Apart from the above costs, travellers bear most of their expenses at their destination.

There are two methods (and a combination thereof) for calculating travel services:

- estimates based on domestic currency sold to private customers and statistics of the use of credit cards (data from banks and currency exchange offices), and
- sample surveys.

When Estonia was to choose the method, the Estonian kroons were not only exchanged for other currencies to pay for travel costs but also to take business revenue out of the country. For example, large currency transactions were made in relation to purchasing real estate and vehicles as well as in the black economy. Common Estonian people rarely had credit cards. Therefore, Estonia opted for the sample survey method for the calculation of travel services. This method lies in identifying the average expenses per traveller using questionnaires and establishing the cost of travel services on the basis of these expenses and the actual number of visitors.

As later developments in Estonia and the world proved, that choice was correct because after the changeover to the euro several EU countries had to change their method. However, every method has its drawbacks: although we can use detailed data from the Border Guard Administration on crossing of border of people from nearly 200 countries, in terms of the balance of payments complications arise regarding the difference between citizens and residents. For instance, in Estonia, a large number of residents do not have Estonian citizenship (incl. about 10% of Russian citizens) and long-term migrant workers become non-residents

in respect to their country of nationality. As of 2004, the Border Guard Administration does not register crossing of border by citizens of the European Union and other countries that have acceded to the Schengen agreement. Their numbers are estimated on the basis of the number of passengers at Tallinn Port and Tallinn Airport along with sample surveys of border crossing on the basis of statistical models.

From 1995 questionnaire surveys are carried out once or twice a year in Estonia in order to establish travel expenses. Such surveys are conducted in major border crossing points in proportion to the passenger flows. Questions are asked from non-residents leaving Estonia about their travel expenses born in Estonia, and from Estonian residents upon arrival about their expenses abroad. The survey is carried out in July and August, the peak season in tourism, and in the low season, either in February or November. The size of the sample is 1,200 to 2,000 persons. In general, expenses per person in the high season are lower compared to those in the low season because the number of business travellers is higher in winter.

## **TRAVEL SERVICES IN THE BALANCE OF PAYMENTS**

Estonia's first balance of payments was compiled in 1993 for the preceding year. As the compilation of the balance of payments using the sample survey method is fairly expensive, it was done jointly with the Tourism Board who submitted the initial estimates regarding Estonian tourists to foreign countries and foreign tourists visiting Estonia. While people's expenses abroad are different, the travellers are grouped according to their consumption patterns. Travel services are calculated separately in each group by multiplying the number of people in the group with their expenses.

Until 1995, only the total number of foreign tourists and same day visitors to Estonia and their average expenses incurred in Estonia were used, along with the total number of Estonian tourists going abroad and their average expenses there. As of 1996, the data from the Border Guard Administration regarding the citizenship of border-crossers are available. These data were used to distribute travellers into groups (strata) according to the specifics of their consumption.

Two characteristics are used for grouping: length of the trip and country of origin.

Travellers to Estonia are grouped by the length and nature of trip:

- same day visitors (relatively high numbers from neighbouring countries, that is Finland, Russia and Latvia);
- tourists on a package tour (pay most of their transport and accommodation costs before the trip);
- tourists without packages (tourists who stay for more than one night either at friends' or family's place or book their own accommodation in accommodation establishments).

The surveys establish the length of stay in Estonia and average expenses depending on the country of origin. Countries of origin are divided into seven groups according to the consumption patterns. Major tourism partners are shown separately as countries; other countries are grouped on the basis of similar consumption behaviour. Over the recent years, non-residents have been grouped geographically as follows:

- Finland;
- Scandinavia;
- Latvia and Lithuania;
- other EU countries;
- CIS (mostly Russia);
- USA and Canada, and
- other countries.

The number of Estonians surveyed after their return from abroad is much smaller. In order to obtain more reliable data, travellers are grouped as follows:

- Finland;
- Sweden;
- other EU countries;
- Latvia and Lithuania;
- CIS (mostly Russia), and
- other countries.

Expenses made on a day trip do not depend much on the country of destination.

Closer ties with the rest of the world brought about improvements in methods. From 2000 onwards, a need arose to break down travel services geographically across major trade partners; in the case of the European Union, that means a breakdown of all member states. In relation to people that work abroad, it is necessary to make a distinction in business travellers' expenses between seasonal and cross-border workers' living costs during the working period.

In order to improve the reliability of travel services data in the EU, the Eurostat working group Travel was set up, consisting of representatives of the EU countries. Its main task is to carry out bilateral comparisons (exports of travel services of one country should be approximately equal to the imports of travel services of another country from the former) and to adjust methods, should there be any differences.

## EXPENSES OF NON-RESIDENTS IN ESTONIA

The chosen methodology shows that the credit of travel services depends on the number of non-resident visitors to Estonia and their expenditure in Estonia. Considering the dynamics of the number of non-residents who visit Estonia (see Figure 2), it is striking how important seasonality is and also, the low number of tourists who have used services of Estonian travel agencies. The number of tourists on package tours and same day visitors has changed little over the past eleven years, whereas the number of overnight tourists without a package has risen substantially. Estonia has become more and more attractive over these years. Estonian real estate prices have encouraged foreigners to purchase apartments and summer houses

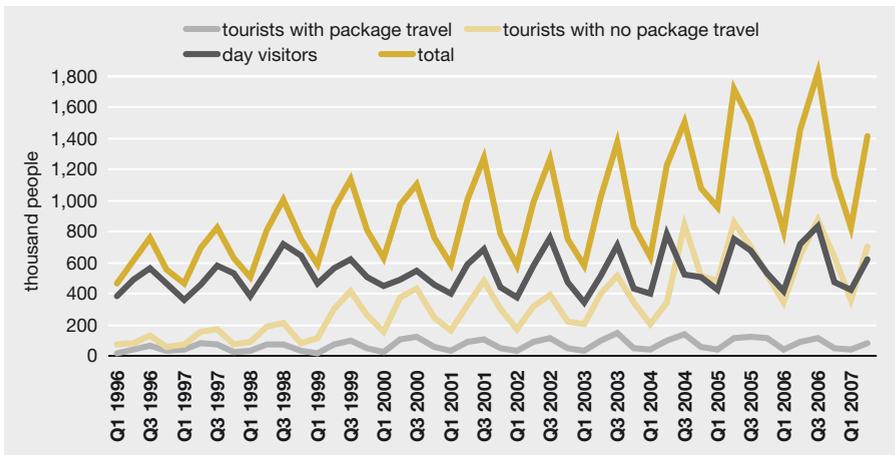


Figure 2. Number of non-resident visitors in Estonia in 1996–2007

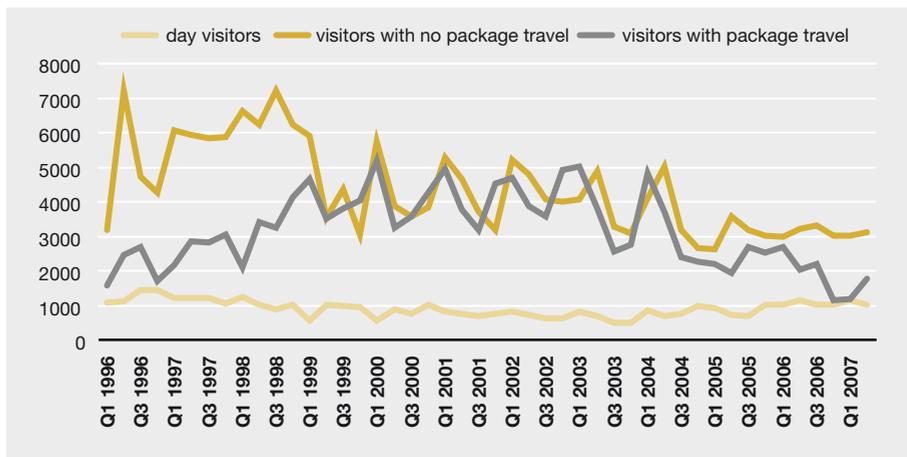
whereas the use of these does not reflect in the sales of tour packages.

The number of non-resident visitors grew robustly after Estonia joined the European Union, as people from the old member states came to see the newcomer. The number of same day visitors has been slightly increasing from 2004 onward, and so has providing services to a whole host of visitors who arrive on cruise ships.

Finns form a majority among visitors to Estonia, although their share has fallen from 70% in 1996 to 47% in 2007. Russians rank second and are very important in terms of balancing the impacts of seasonality. In other words, their share is relatively high in the winter months (the first and fourth quarters) when our accommodation establishments are under-occupied.

From 2007, Estonia's attractiveness as a good place for shopping has been declining owing to the price growth. Whether it has also caused a decrease in the number of visitors is not obvious yet.

Average expenses per person increased along with the rise in Estonia's consumer prices until 1999 (see Figure 3). During the period of a relatively stable price growth, the expenses across all three visitor groups also remained stable until 2004.



**Figure 3. Average expenditure per visitor in Estonia**

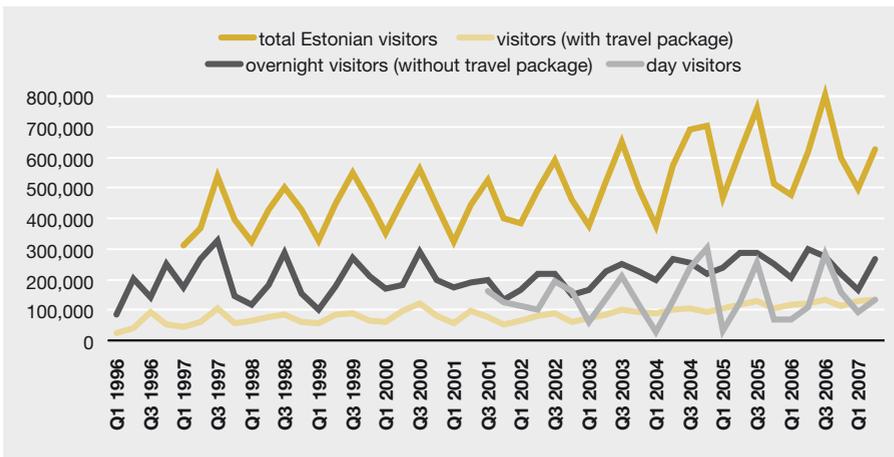
Expenses per person among same day visitors have been increasing since 2005 because the share of wealthier cruise tourists has risen. On the other hand, expenses made by overnight visitors have fallen because prices in Estonia have risen to the level where shopping tourism is losing its importance. Moreover, tourists without packages do not need to stay in registered places of accommodation; they rather “stay in the private sector” (use their own real estate, visit friends or relatives, and so on).

**EXPENSES MADE BY ESTONIANS ABROAD**

Gathering data on Estonian travellers abroad is even more complicated than that on foreigners in Estonia. Up to 2004, statistical data on border crossing for Estonian citizens and persons without citizenship were available in the report of the Border Guard Administration, which, by conducting an additional survey could be translated into residence-based format, reflecting numbers of persons without citizenship and Estonian people with Russian citizenship. As the registration of EU citizens on the border was abolished after Estonia joined the EU, the trips of Estonian residents to foreign countries could only be estimated by using statistical models, even though the accession may have considerably influenced people's travel

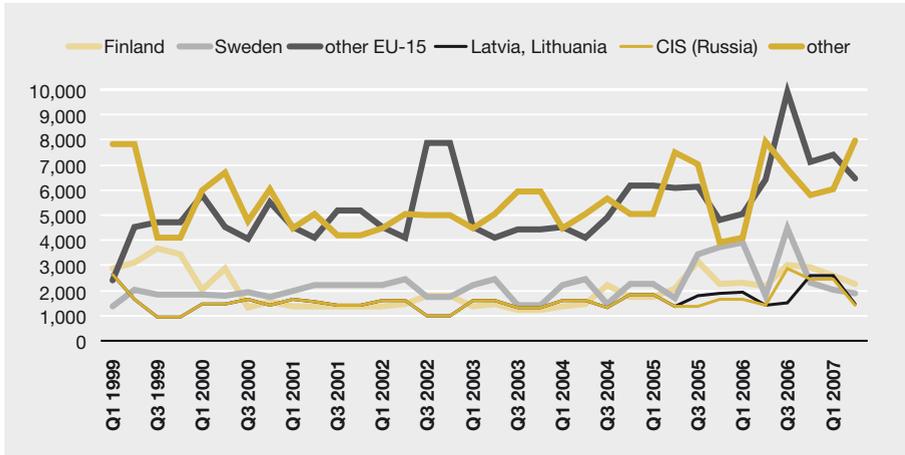
behaviour. The situation was further aggravated by an increasing number of people seeking employment abroad, which increased the number of seasonal and cross-border workers crossing the border. The living costs of short-term employees are assessed by using a different model; thus, the number of border crossings by Estonians needs to be adjusted in this regard, in order to avoid the double registration of such people.

The number of trips made by Estonians displays seasonality as well (see Figure 4), but differences between the high and low seasons are still lower than in the case of foreigners' trips to Estonia. The number of Estonian tourists travelling through travel agencies has risen two or threefold. This is especially notable in winter and spring but only about 20% of the Estonians have used the services of travel agencies. The total number of trips made by Estonians remained relatively stable until 2001. As of 2002, the number of trips has been constantly growing. Furthermore, we can also observe a rise in the number of tourists who buy package holidays. This is because trips have become longer and that, in turn, requires some assistance from travel agencies.



**Figure 4. Estonian residents' trips abroad by length and type**

While in the late 1990s trips were predominantly made to Finland, Russia and Sweden, then more recently visits to Finland are still popular in winter. At other times, the EU and other countries, and Finland and Russia are equally attractive. Average expenditure per person remained fairly stable in 2000–2005. As of 2006, expenses have increased for trips to far-away EU countries and non-EU countries (see Figure 5).



**Figure 5. Estonian tourists' spending abroad per capita**

**WHAT TO EXPECT IN THE NEAR FUTURE?**

Estonians' expenditure has increased rapidly along with strong economic growth, which also reflects in higher travel expenses. The latest trend is the rise in winter holiday trips. As a result, the travel services account of the balance of payments is nearly balanced at the beginning and end of the year. This is because Estonians are more and more seeking for hot weather in the winter time as well as skiing pleasure in Northern and Central Europe. At the same time, trips of foreign visitors to Estonia are decreasing in number owing to the rising prices and the waning novelty of sights in Estonia.

As our tourism season is short, we should be looking for new reasons to attract tourists to Estonia also in off-season. Possible solutions include conference tourism, high-quality (and reasonably priced) services in our health care centres, farming and nature related niche tourism, etc. Hopefully, also our eastern neighbours will resume interest in celebrating the New Year's Eve in Estonian hotels, which are usually under-occupied at that time of the year. If Estonians' interest in far-away countries is growing, which is only natural, it is quite clear that we should make serious efforts to maintain the flow of tourists to Estonia.