Macro Notes – Tourism: Long Road to Recovery

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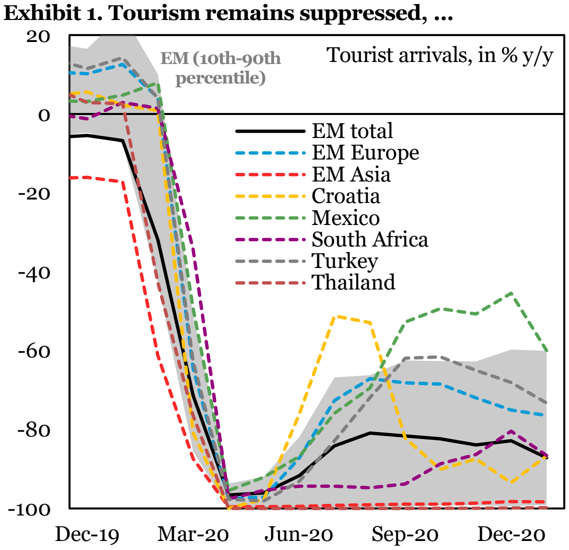
- The COVID-19-induced collapse in international tourism was unprecedented.
- Even in an optimistic scenario, tourism revenues will remain subdued in 2021.
- As a result, the economic recovery in countries such as Thailand will be slower.
- Furthermore, external pressures are set to rise as imports rebound strongly.

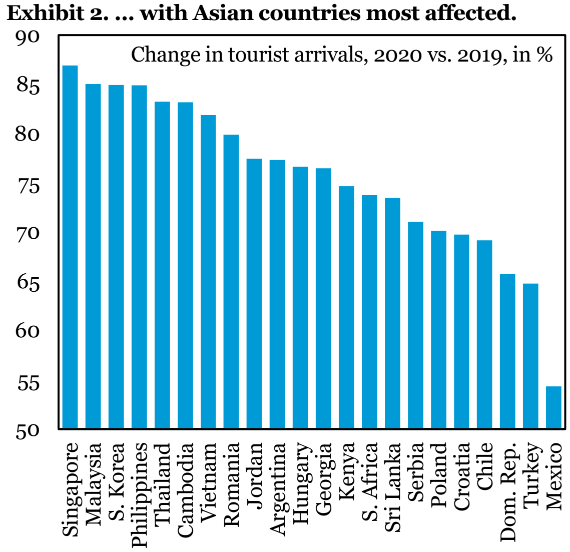
In a number of previous publications, we looked at the impact of the COVID-19 pandemic on international tourism and tourism-dependent EM—starting with an assessment of the situation after the first wave of infections and lockdown measures in 2020Q2, followed by an update in the fall when visitors had returned to some destinations over the summer, and concluding with a closer look at current account adjustments in the context of sharply reduced tourism receipts. In this ***Macro Notes***, we take stock of developments over the last sixth months when international travel once again declined as a second wave of infections swept through many tourist origin countries, in particular those in Europe. While the situation remains difficult for the tourism industry at this point, there appears to be some hope of recovery due to vaccination efforts gaining momentum and fewer (travel) restrictions being discussed for vaccinated individuals. However, we find that even a relatively fast rebound of tourism would leave many countries in a precarious position in 2021, both with respect to economic growth as well as external vulnerabilities.

Exhibit 1. Tourism remains suppressed, …



Source: Haver, IIF

Exhibit 2. … with Asian countries most affected.

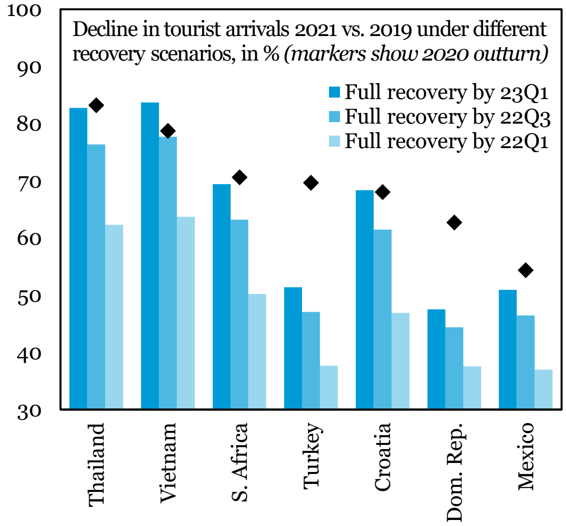


Source: Haver, IIF

The collapse in tourism in 2020Q2 was unprecedented—both in its severity as well as broad-based nature (Exhibit 1). Of the 38 countries for which we are able to collect visitor numbers, three-fourths experienced declines of more than 95% compared to the second quarter of 2019 with a median decrease of 98%. In some countries, largely those in EM Asia, borders effectively remained closed beyond 2020Q2 and visitor numbers stayed at or near zero for the rest of the year. At the same time, subsiding infections in Europe allowed for fewer restrictions and led to a temporary uptick in visitor numbers over the summer. However, the second wave of the pandemic and reintroduction of strict public health measures suppressed tourism again towards the end of the year. Destinations in Latin America benefitted from fewer travel restrictions and a somewhat more laissez-faire attitude in the U.S. These dynamics are reflected in the full-year numbers, with Asian EMs seeing the largest declines (Exhibit 2).

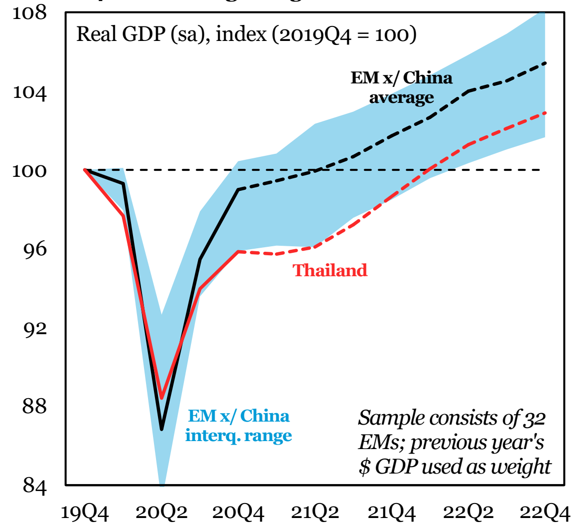
It is important to recognize that even a relatively fast recovery of international travel in the coming months would leave many tourism destinations in a precarious position. To illustrate this fact, we analyze three scenarios: one in which pre-pandemic levels are reached by the beginning of 2022, on in which they are reached by the second half of 2022, and one in which they are reached by the beginning of 2023. Even the most optimistic scenario would leave visitor numbers substantially below their 2019 levels this year—around 60% in Thailand and Vietnam, 50% in Croatia and South Africa, and 40% in the Dominican Republic, Mexico, and Turkey (Exhibit 3). However, a full recovery by the start of next year would be surprisingly fast given the slow vaccination campaigns in some countries. In a more realistic scenario, numbers could stay 70-80% below pre-pandemic levels this year in some places.

Exhibit 3. The tourism recovery will take time, ...



*Source: Haver, IIF * recovery = return to 2019 level*

Exhibit 4. ... and weigh on growth in the near term.

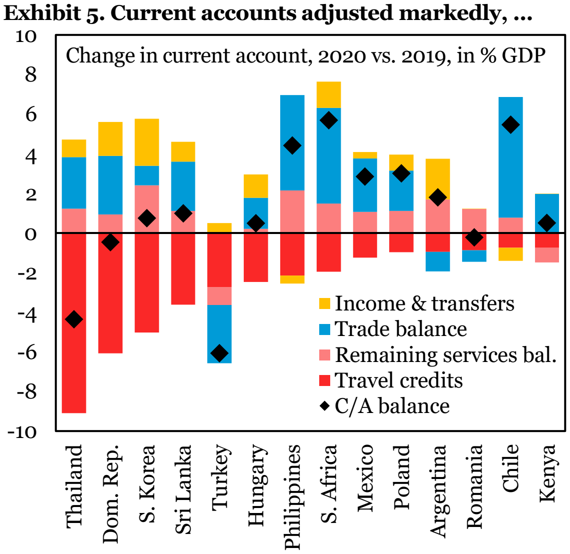


Source: Haver, IIF

That tourism will likely be among the last sectors to fully make up losses from the COVID-19 shock has important implications both for the overall economic recovery as well as tourism-dependent countries' external balance. With respect to growth, we illustrate this point by comparing the path of seasonally-adjusted real GDP in Thailand with the overall EM universe excl. China. According to our forecast, Thailand will reach 2019Q4 GDP levels roughly two quarters later (in 2022Q1) compared to emerging markets as a whole, to a large extent due to weakness in tourism-related sectors (Exhibit 4). In fact, a decomposition of Thailand's GDP shows that all sectors outside of transportation, accommodation and food services, and entertainment have almost fully recovered their losses relative to 2019Q4 while those three sectors keep total economic activity around 4.2% below this baseline.

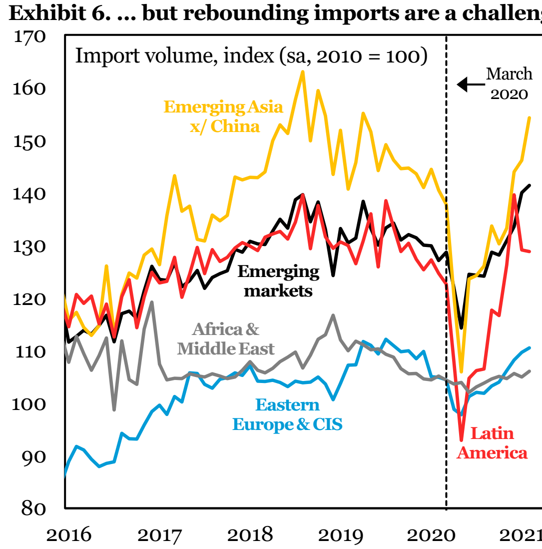
Beyond the impact on GDP and labor markets, the slow recovery of tourism also has important consequences for countries' external balances. In 2020, many EM saw an improvement in their current accounts despite the decline in services credits, largely due to substantially lower imports of goods and services (Exhibit 5). Exceptions are Thailand, where the collapse in tourism revenues was simply too large to be compensated, and Turkey, where gold imports increased markedly as residents reduced their exposure to the TRY. These current account improvement reduced external financing needs in a time of risk-off sentiment in global financial markets. However, import volumes are increasingly recovering from the COVID-19 shock, especially in EM Asia and Latin America, and trade balances will revert to pre-pandemic levels in 2021 to a certain extent despite concurrently improving exports (Exhibit 6). With tourism revenues still significantly suppressed, external pressure is therefore likely to rise.

Exhibit 5. Current accounts adjusted markedly, ...



Source: Haver, IIF

Exhibit 6. ... but rebounding imports are a challenge.



Source: Haver, IIF