

Portugal: coronavirus and tourism, two great enemies

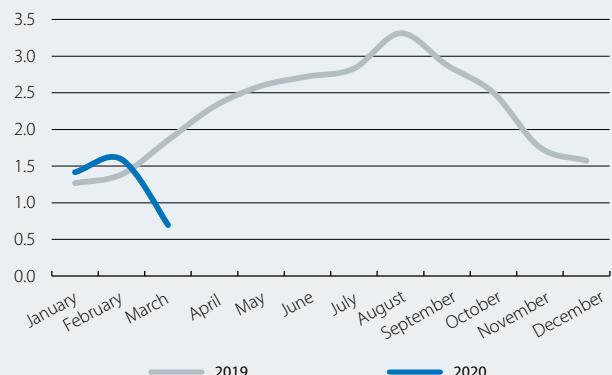
- The outbreak of the COVID-19 pandemic in March resulted in a sudden halt of tourism activity in Portugal.
- All indicators suggest that tourism activity will remain weak throughout 2020, which will impose a major restriction on the Portuguese economy given the importance of the sector for the country's GDP.

Tourism will inevitably be one of the sectors where the new coronavirus pandemic will hit the hardest, given that the rapid spread of the disease across the world has forced governments to enforce extraordinary measures, restricting mobility. These measures particularly affect the tourism sector, in which we expect to observe historic declines in tourism revenues and a profound impact on the sector as a whole. In this article, we will analyse the impact of the pandemic on the tourism of Portugal and what this situation entails for the sector during 2020.

The first case of coronavirus in Portugal was identified on March 2nd, 2020 and, two weeks later, the state of emergency was declared. The outbreak of the pandemic in Portugal in March led to a sharp fall in tourism activity, as the number of guests in tourist accommodation establishments¹ barely reached half the level of March 2019: in other words, visits by domestic and foreign guests registered a year-on-year decline of 51% and 48%, respectively. Moreover, in April and May, all the indicators suggest an almost complete paralysis of the sector. In particular, it is estimated that in these two months passenger arrivals on tourist flights were reduced by around 93%.² In addition, 80% of tourist accommodation establishments registered booking cancellations between March and August resulting in a 60% year-on-year decline of their earnings in March.

The importance of tourism for the Portuguese economy makes it crucial to analyze the impact of this health emergency on tourism activity and on the consequences for the future of the sector. In 2019, international tourism generated 18,431 million euros in revenues, corresponding to 8.7% of Portugal's GDP. In March 2020, international tourism revenues fell 43% year-on-year meaning that, in the first quarter of this year, exports of tourism fell by 11%. Although the restrictions on activity are now being gradually lifted, the limits on international mobility will prevail over the next few months as so foreign tourism is expected to have a slow recovery. Thus, in a scenario in which exports of tourism show a year-on-year decline of around 95% in the second quarter (the peak of the pandemic), of 75% in the third quarter and of 50% in the fourth quarter, the decline for the year as a whole would amount to around 65%. In this scenario, foreign tourism alone would be responsible for a 13% drop in total exports and a 6% fall in GDP in 2020.

Portugal: guests in tourist establishments
(Millions of guests)



Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

However, the importance of the tourism sector in the economy goes beyond international tourism. In 2019, the consumption of all tourists amounted to 15% of GDP and the sector as a whole accounted for 10% of total employment. In Q1 2020, the evolution of the sector's profits suggests that activity was 20% lower than usual. As for the second quarter, at the peak of the pandemic, the available data suggests that activity may be 90% lower. In a scenario in which the activity rate were to recover to 40% in Q3 and to 60% in Q4, the reduction in the sector's activity for 2020 as a whole would be around 60%. This would mean that the tourism sector alone would be responsible for a fall in GDP of around 9% this year.

The final impact will be largely determined by the extent to which international mobility reopens during Q3, since 40% of annual tourism revenues are generated in this period. The forecasts of the main institutions for European and global tourism are not very encouraging. In particular, they indicate a decline in global tourism activity of around 40% in 2020,³ anticipating that we will begin to see a recovery in 2021. However, it will likely be a few years before tourism activity recovers to pre-crisis levels. The COVID-19 crisis will not only have an unprecedented impact on economic activity, but it is also generating a high level of uncertainty over potential changes in consumption patterns and people's living habits. The consequences of the «new normal» for the tourism sector will depend not only on how the disease develops, but also on potential changes in habits related to social distancing and international mobility.

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1. Including local accommodation.

2. Year-on-year change estimated by Tourism of Portugal.

3. Based on data from the European Travel Commission.