

RECENT DEVELOPMENTS IN INBOUND TOURISM IN SPAIN

This early-release box was published on 9 September

In Spain, exports of travel services accounted for 5.6% of GDP and 16% of total exports of goods and services in 2018. These percentages are much higher than those observed in the main euro area economies, except for Portugal and Greece (see Chart 1). The Spanish economy is therefore particularly sensitive to this sector's performance, in terms of both activity and net external balance (within which the travel surplus exceeded 3% of GDP in 2019).

This box describes the latest developments in inbound tourism in Spain,¹ after the historic collapse recorded in 2020 Q2 as a result of the COVID-19 pandemic.² Naturally, they have been heavily influenced by the health crisis's course and by the measures deployed to contain it, with two clearly distinct phases in recent months.

At end-June and in early July, after a few weeks where the epidemiological situation in Spain and in most other European countries had shown clear signs of improvement, the restrictions imposed on international movement when the virus's incidence was at its highest were eased.³ This enabled the gradual resumption of inbound tourism in Spain. The foregoing is evidenced by various high frequency indicators including most notably those approximating passenger traffic at Spanish airports, spending in Spain using credit cards issued abroad, and internet searches for holidays in Spain from our main inbound tourism markets,⁴ such as the United Kingdom (see Charts 2-4).

The monthly frequency indicators typically used to monitor inbound tourism's situation, only available to July, also point to an improvement in activity levels in that month. However, they still remained very low (see Charts 5 and 6). For instance, drawing on data from the Inbound Tourism Survey (Frontur by its Spanish abbreviation), the year-on-year rate of contraction in foreign tourist arrivals moderated to 75% in July, compared with a rate of almost

98% in June. As expected, this recovery in tourist arrivals was underpinned mainly by tourists from neighbouring countries (who can enter the country more readily by road, without needing to resort to shared means of transport in order to travel) and by those with their own residence in Spain (or, more generally, those who do not pay monetary consideration for their accommodation).⁵ Indeed, while arrivals of French tourists diminished 58% year-on-year, those of tourists from the United Kingdom, who are more dependent on air transport, declined by 83%.

Similarly, the Hotel Occupancy Survey recorded a smaller year-on-year contraction in overnight hotel stays by non-residents in July (-86%) than in the three previous months (in which practically no overnight stays were recorded). However, the decline was still very significant. Across the main inbound tourism markets, the drops were, once again, steepest in the case of tourists from the United Kingdom (-91.4%). Lastly, the Tourism Expenditure Survey (Egatur by its Spanish abbreviation) points to a similar trend, with a decline in expenditure by inbound tourists of close to 80% year-on-year in July, following a drop of -98.6% in June. This contraction reflected both the aforementioned fall in tourist arrivals and the drop in their average daily expenditure (23.3%), countering the slight increase (of 0.6 days, to 8.1 days) in average stay.

Consequently, the gradual recovery of inbound tourism following the reopening of borders has been very limited. Moreover, as the summer progressed, this trend was curtailed by the worsening of the health crisis in our country. Thus, in response to the steady rise in the number of COVID-19 infections detected in Spain from mid-July, many countries established new restrictions for individuals travelling from Spain or from one of its regions. The limitations imposed by our main inbound tourism markets notably included the quarantine established on 26 July by the United Kingdom for all individuals travelling from

1 In this box, inbound tourism refers to tourism by non-residents in Spain. This box does not address developments in recent months in domestic tourism, i.e. that by residents in Spain. Nonetheless, according to the latest available information, the performance of this segment of the sector in this period appears to have been more favourable than that observed for inbound tourism. For instance, in July overnight hotel stays by residents declined year-on-year by 50%, versus an 85.7% drop in the case of non-residents.

2 For further details, see Banco de España (2020), *Annual Report 2019*, Box 4.1, "The Spanish tourism sector: recent performance, outlook and implications for the economy".

3 For instance, Spain reopened its borders to the 26 Schengen countries on 21 June (except for Portugal, the reopening was delayed until 1 July) and to another 12 countries (Australia, Canada, South Korea, Japan, Georgia, Montenegro, New Zealand, Rwanda, Serbia, Thailand, Tunisia and Uruguay) on 4 July.

4 It is necessary to state that the more flexible cancellation policies adopted by travel agencies and hotels, amid a high level of uncertainty surrounding the pandemic's course, mean that internet travel searches and bookings are not as sound a leading indicator of tourism activity as pre-epidemic.

5 While tourist arrivals by road fell 52.8% year-on-year in July, arrivals by air contracted 79.7%. In turn, arrivals of tourists using non-market accommodation performed better than those of tourists staying at hotels (year-on-year drops of 50.2% and 82.3%, respectively).

RECENT DEVELOPMENTS IN INBOUND TOURISM IN SPAIN (cont'd)

Chart 1
WEIGHT OF INBOUND TOURISM (2018)



Chart 2
AIR TRAFFIC AT SPANISH AIRPORTS
Year-on-year rates of change (seven-day moving average)

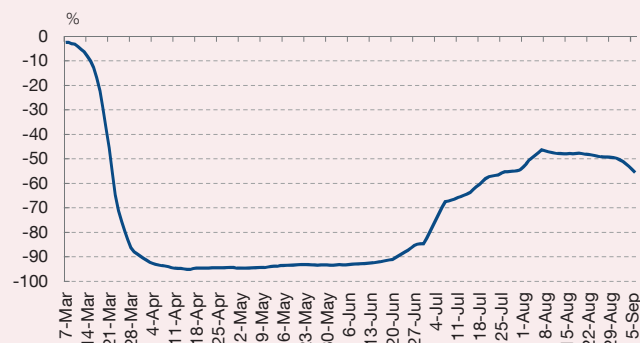


Chart 3
FOREIGN CREDIT CARD SPENDING
Year-on-year rates of change (seven-day moving average)

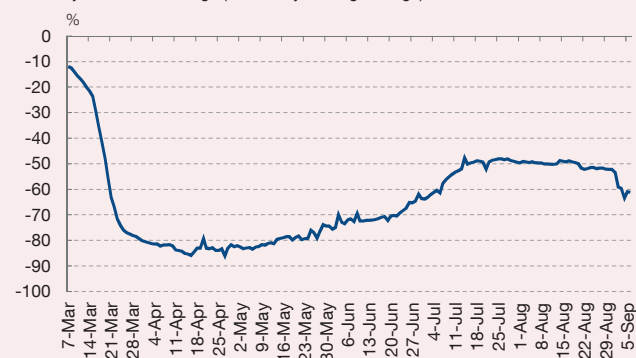


Chart 4
TOURISM SEARCHES ON GOOGLE FOR HOLIDAYS IN SPAIN
Inbound market: United Kingdom

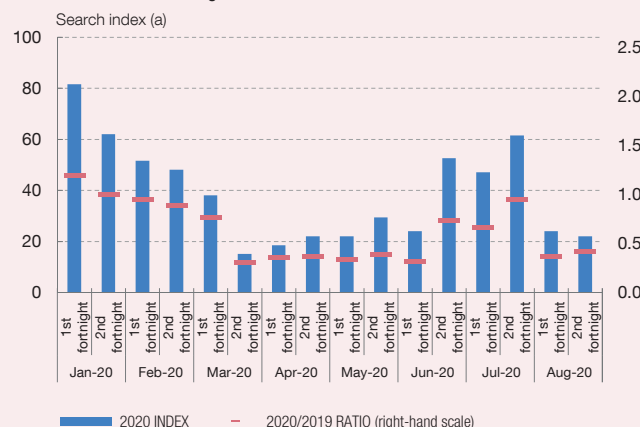


Chart 5
SPAIN: INBOUND TOURISM INDICATORS BY MAIN INBOUND MARKETS
Year-on-year rates in June 2020

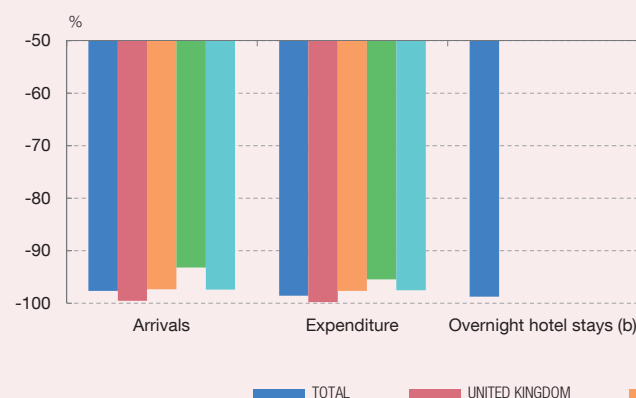
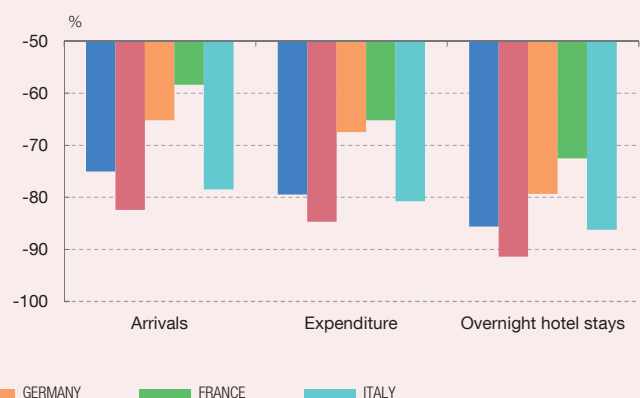


Chart 6
SPAIN: INBOUND TOURISM INDICATORS BY MAIN INBOUND MARKETS
Year-on-year rates in July 2020



SOURCES: Banco de España, OECD, Eurostat, INE, Eurocontrol and Google Trends.

a A value of 100 indicates the searches' peak popularity.

b Owing to the exceptional situation triggered by the COVID-19 pandemic, the Hotel Occupancy Survey did not provide an international breakdown of the overnight stays in its data for June.

RECENT DEVELOPMENTS IN INBOUND TOURISM IN SPAIN (cont'd)

Spain, and the mandatory testing imposed by Germany on all those arriving in the country from a large number of Spanish regions, with the obligation to remain in quarantine at least until they had received the results of such tests.⁶ In any event, according to the latest information provided by the Ministry of Foreign Affairs, European Union and Cooperation, the majority of EU and non-EU countries have established some movement restrictions on individuals travelling from Spain.⁷

Naturally, these new restrictions (and the recommendations not to travel to Spain) have had, and will foreseeably continue to have, a severe impact on the flows of inbound visitors. In addition, the fact that the Spanish authorities have again imposed certain limitations on capacity and activity in the leisure and food service sectors (of varying degree depending on the region and its epidemiological situation) could have an additional deterrent effect on tourism demand. In any case, it has already been observed that, in response to the new restrictions adopted by the countries providing tourists, some of the main tour operators have cancelled their scheduled trips to Spain, mainly those involving air travel. Moreover, the same high frequency indicators that evidenced some recovery of inbound tourism to Spain at end-June and in early July, showed a stagnating (and in some cases, reversed) trend from end-July (see Charts 2-4). In this connection, tourist industry sources have pointed to a decline in international bookings and an increase in cancellations in recent weeks, which would confirm the changing trend in this sector. These negative developments are causing a

substantial proportion of hotels to close before the end of the season, mostly in destinations that rely heavily on inbound tourism, and have led to a further worsening of the outlook for the Spanish tourism sector.⁸

In summary, inbound tourism's incipient recovery in Spain at end-June and the beginning of July appears to have been cut short in August, the month when inbound tourism expenditure typically records its annual peak, as a result of the worsening of the health crisis in recent weeks. Taking into account inbound tourism's importance to the Spanish economy and that, according to the latest World Tourism Organization scenarios,⁹ international tourist numbers returning to pre-health crisis levels before 2022 does not seem feasible, it would be desirable for the economic policies adopted in relation to this sector to combine elements mitigating the pronounced loss of income in the short term with stimuli encouraging the structural changes whose need had already been identified pre-COVID-19. Among other matters, the sector's digitalisation and human capital must be strengthened and the sustainability of tourism destinations, especially coastal destinations, boosted in order to improve the tourism experience through a more varied and less crowded offering, thereby providing better quality services. Such progress would help consolidate inbound tourism's diversification towards markets – such as the US, China and the Scandinavian countries – and segments – e.g. urban tourism and business tourism – with higher average expenditure. This diversification process was already under way before the health crisis.

6 On 8 August, Germany imposed these measures on individuals travelling from Catalonia, Aragon and Navarre, extending them to people travelling from Madrid and the Basque Country four days later, and subsequently, to other regions. The last region to which this measure was applied was the Canary Islands, on 2 September. Additionally, from mid-September, the German authorities will no longer provide tests for returning tourists, who will be subject to a mandatory quarantine.

7 Within the EU, the only countries that have not imposed such restrictions are France, Croatia, Bulgaria, Portugal, Sweden and Luxembourg. However, France has issued a recommendation not to travel to Catalonia and Aragon.

8 See Exceltur (2020), *Revisión del impacto del Covid 19 sobre el sector turístico español*, August.

9 See <https://www.unwto.org/news/covid-19-international-tourist-numbers-could-fall-60-80-in-2020>.