

**THE SPANISH TOURISM SECTOR: RECENT PERFORMANCE, OUTLOOK AND IMPLICATIONS FOR THE ECONOMY**

As evidenced by a wide range of indicators, activity in the Spanish tourism sector has been brought to a standstill since the outbreak of the COVID-19 health crisis. For instance, overnight stays at hotels – which had grown year-on-year by 2.9% and 6.8% in January and February, respectively – fell by more than 60% in March, while in April there were none. This dynamic was common to both resident and non-resident travellers (see Chart 1).<sup>1</sup> Along the same lines, foreign tourist arrivals and inbound tourism expenditure also fell sharply in March and disappeared completely in April. This brought the momentum demonstrated by these variables in the preceding months to a sudden halt (see Chart 2). In employment terms, the adjustment in the domestic tourism sector has been equally pronounced. For example, at end-May, 7.8% of the employees of the accommodation and food service activities sector – one of the sectors most closely linked to tourism – were no longer registered for social security, and 55% of the total were subject to short-time working arrangements. Furthermore, according to data at end-April, 15% of the sector's workers were receiving the benefit for cessation of activity.

This box first analyses the outlook for the Spanish tourism sector in the coming quarters. The outlook is of course contingent on how the virus evolves, which is extraordinarily uncertain and will be key to determining the pace at which this sector's activity could return to a certain level of normality. This box then studies the extent to which the Spanish tourism sector's performance in the medium term could affect the recovery of the economy as a whole. This is a matter of particular importance considering that tourism accounts for a relatively high percentage of Spanish GDP and employment in the Spanish economy.

It is foreseeable that the uncertainty surrounding further possible outbreaks of the virus will continue to adversely

affect the sector's activity until a vaccine or effective treatment for COVID-19 is widely available. First, this uncertainty, along with a downturn in household income and in the macroeconomic outlook, will clearly hinder the recovery in domestic and inbound tourism demand in the medium term. Further, in order to minimise the risk of a second outbreak of the virus, the leisure, accommodation and food services, restaurant and transportation sectors of activity are still subject to significant capacity restrictions and must adopt various hygiene and safety measures that place constraints on the normal performance of their activity.

These factors may also delay the recovery from a supply-side perspective. In particular, it is likely that some of the restrictions in force significantly limit in the short term the profitability of many tourism-related firms and their ability to resume business, following sizeable revenue losses during the months when the measures to contain the pandemic were at their strictest and amid high levels of uncertainty surrounding the future outlook for their businesses.<sup>2</sup>

The various scenarios envisaged in the tourism sector point in the same direction. Broadly speaking, they all suggest – even in a context in which a second wave of infections of the virus is avoided and the authorities of the various countries can continue with the lockdown easing plans – that activity in this sector will plummet in 2020 by around 60% both in Spain and globally, and that the recovery will be very gradual. Accordingly, at present, it does not seem feasible that pre-health crisis levels of activity will be achieved before 2021 H2.<sup>3</sup>

In any event, tourism activity will foreseeably recover at different speeds. In particular, one could expect domestic tourism to recover before inbound tourism and a portion of Spanish residents' usual outbound tourism expenditure to be redeployed in the domestic market.<sup>4</sup> Nevertheless,

1 Data on overnight stays in February were already evidencing some of the pandemic's effects on the sector's activity. Specifically, overnight stays by Chinese residents, the country initially hardest hit by the virus, fell by 54% between January and February. Further, coinciding with the cancellation of the Mobile World Congress in Barcelona in February, overnight stays by foreign tourists in Catalonia performed considerably worse than the national average and declined 6% year-on-year.

2 The vulnerability of the business model or the financial position of certain key firms in this sector, such as airlines, tour operators, hotels and restaurants, has been highlighted, inter alia, in various reports by the Alliance for Excellency in Tourism (Exceltur), the International Air Transport Association (IATA) or the consultancy firm Ernst and Young. For the specific case of accommodation and food services activities, see, for example, Ernst and Young (2020). *Impacto de Covid-19 en hostelería en España*, April.

3 See, for example, UNWTO (2020). *World Tourism Barometer May 2020, Impact assessment of the COVID-19 outbreak on international tourism*; and Exceltur (2020). *Plan "Renacer del Turismo Español" 2020-2023* (June).

4 Some EU countries have adopted economic incentives to boost domestic tourism. The cases of Italy and France stand out because of their significance. In Italy, the incentive consists of a "holiday voucher" of up to €500 per family to be redeemed at Italian hotels and hostels this summer. Households whose income does not exceed €40,000 per year will benefit from this voucher. In turn, France will provide tourism cheques to its underprivileged citizens and to the cohorts that have battled COVID-19 on the front line, such as healthcare workers and cleaning, transport and food services.

Box 4.1

**THE SPANISH TOURISM SECTOR: RECENT PERFORMANCE, OUTLOOK AND IMPLICATIONS FOR THE ECONOMY (cont'd.)**

Chart 1  
OVERNIGHT HOTEL STAYS

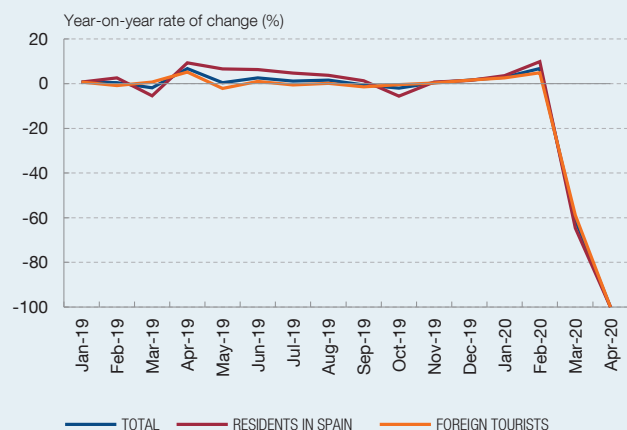


Chart 2  
ARRIVALS OF FOREIGN TOURISTS AND TOURISM EXPENDITURE

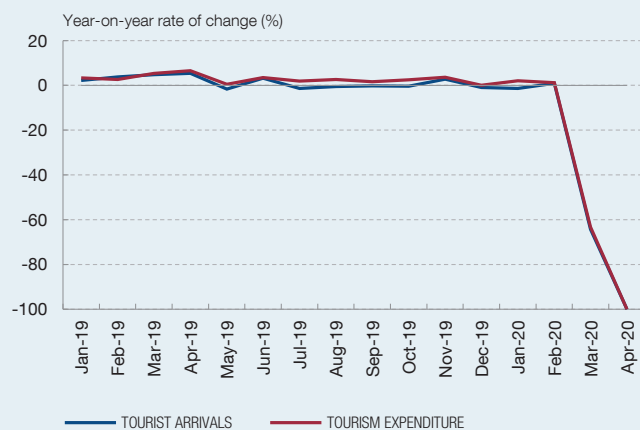


Chart 3  
ARRIVALS OF FOREIGN TOURISTS AND TOURISM EXPENDITURE BY MONTH

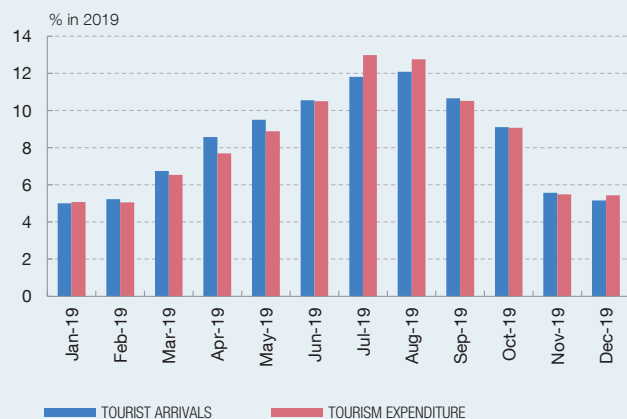


Chart 4  
SPILLOVER EFFECT AMONG THE MAIN SECTORS ENGAGED IN TOURISM ACTIVITIES

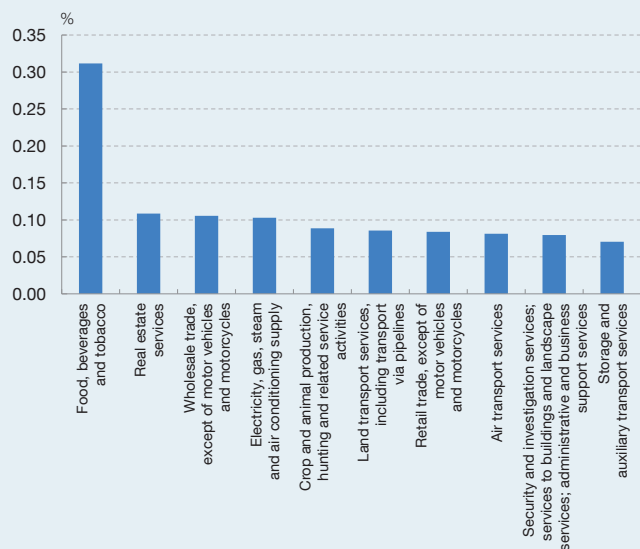


Chart 5  
INTERNAL TOURISM EXPENDITURE BY REGION IN 2019

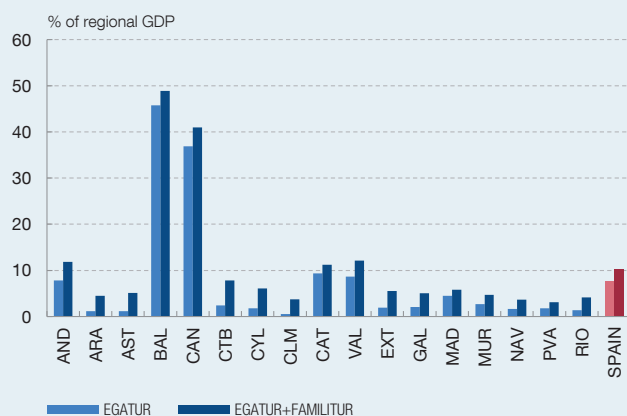
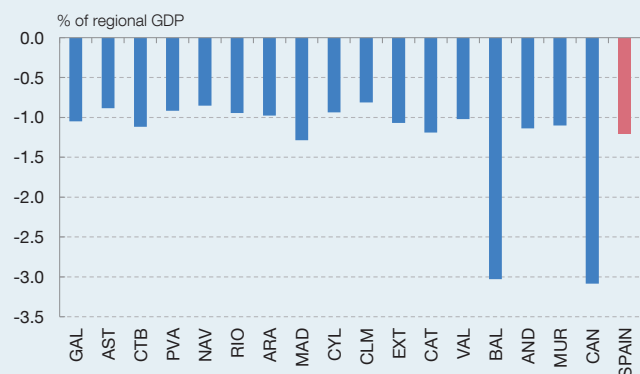


Chart 6  
IMPACT ON ANNUAL REGIONAL GDP OF A DOWNTURN IN INTERNAL TOURISM EXPENDITURE OF 1% OF GDP



SOURCES: INE, AENA, EUREGIO 2018 input-output table and own calculations (based on Google).

the ability of these channels to mitigate the sharper and more protracted reduction that will probably be recorded in inbound tourism to Spain would be relatively limited. For instance, the latest data from the Tourism Satellite Account in Spain show that, in 2018, domestic tourism only accounted for 41% of total internal tourism expenditure. In turn, drawing on data from the Balance of Payments, outbound tourism expenditure by Spanish residents in 2019 only accounted for 33% of inbound tourism expenditure in Spain, resulting in the large travel surplus consistently recorded by the Spanish economy in recent decades.

As regards inbound tourism, some sources in the sector suggest that it seems likely that the flows of visitors from relatively nearby countries, some of whom could enter the country by road (without needing to use shared means of transport for their journey), and of visitors with their own residence in Spain or, more generally, who do not require market accommodation for their stay, will recover first. Table 1 details the make-up of inbound visitors to Spain in 2019, based on data provided by the Inbound Tourism Survey (FRONTUR, by its Spanish abbreviation). As can be observed in the table, most inbound visitors to Spain last year were tourists (66%), while the remainder were same-day visitors whose trips did not include overnight stays. Most tourists come by plane (more than 80%), for leisure or holidays (almost 90%) and stay at a hotel (around 65%). Drawing on the Tourism Expenditure Survey (EGATUR, by its Spanish abbreviation), most inbound tourism expenditure in Spain is by these specific profiles. By contrast, some of the visitor flows that could recover with more momentum in the short and medium term account for a relatively small weight of the sector's total activity. For instance, in 2019, same-day visitors only accounted for 5% of inbound tourism expenditure, whereas, when focusing solely on tourists, those who accessed the country by road or who stayed in non-market accommodation only accounted for 8% and 16%, respectively, of inbound tourism expenditure.

In terms of inbound tourism markets, a significant portion of inbound tourists visiting Spain comes from relatively nearby countries, such as the United Kingdom (almost 22%), Germany and France (in both cases 13% of total tourists). Overall, the British, Germans and French account

for just over 40% of inbound tourism expenditure. Nonetheless, it should be highlighted that, as part of the growing globalisation of tourism flows, in recent years the weight of tourism expenditure in Spain by tourists from countries further afield (such as Scandinavian countries, the United States, Russia or China, which, overall, accounted for 13% of the inflows of foreign tourists to Spain in 2019) was on the rise. Furthermore, their average expenditure during their stays in Spain is, broadly speaking, higher. There is a high level of uncertainty surrounding how this momentum will be affected in the medium term, which will hinge on, among other aspects, macroeconomic and health developments in both the countries that provide tourists for Spain and in our main market competitors. In this regard, there is considerable uncertainty over not only the varying impact of the pandemic on these two groups of countries, but also its effect on the Spanish tourism sector.

In Spain, the tourism sector accounts for 12.3% of GDP and 12.7% of employment, according to the latest information available for 2018. The intensity of its recovery will therefore have a significant bearing on the pace of the overall economy's recovery. Furthermore, insofar as the sectoral and regional exposure to tourism varies considerably, the tourism sector's momentum in the coming quarters will also notably influence the economic outlook for certain sectors of activity and regions. To illustrate these channels, different findings are presented below obtained from several approaches and alternative models.

First, the Quarterly Macroeconometric Model of the Banco de España (MTBE, by its Spanish abbreviation)<sup>5</sup> shows the importance of inbound tourism to the Spanish economy as a whole. The simulations performed using this model suggest that, if international tourism flows (i.e. both imports and exports of tourism) disappeared completely in an "average" month, GDP and annual exports would fall by 0.4% and 1%, respectively. However, as can be seen in Chart 3, inbound tourism expenditure in Spain is highly seasonal. Hence, were international tourism flows to disappear completely in August, the decline in GDP and annual exports would rise to 0.6% and 1.6%, respectively. These estimates highlight the

5 The MTBE is a large-scale macroeconometric model used for medium-term macroeconomic forecasting of the Spanish economy and for simulating counterfactual scenarios. The model is specified as a large set of error correction equations and, especially in the short run, is mostly demand driven. See A. Arencibia, S. Hurtado, M. de Luis and E. Ortega (2017). *New Version of the Quarterly Model of Banco de España (MTBE)*, Occasional Paper No 1709, Banco de España.

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extraordinary importance of the exact point when activity in the sector returns to a certain level of normality.

Second, analysis of global input-output tables with regional detail<sup>6</sup> demonstrates the important differences in the sector's impact on the activity of other productive sectors in the Spanish economy and of certain regions. For example, Chart 4 shows the ten main sectors acting

as suppliers of firms engaging in tourism activities in Spain.<sup>7</sup> Based on that information, each €1 of tourism turnover would generate €0.3 of demand in the food and beverage sector and €0.1 of demand in the real estate services sector. Through these spillover effects, wholesale and retail trade services would also be relatively exposed to the greater or lesser momentum exhibited by tourism activities in the coming quarters.<sup>8</sup>

Table 1  
FOREIGN VISITORS: TOURISTS AND SAME-DAY VISITORS

	Characteristics of foreign tourists			
	2019		2019	
	Millions of people	%		%
Foreign visitors	126.1	100.0	Tourists by country of residence	100.0
Tourists	83.7	66.4	Germany	13.3
1 night	4.2	3.3	Belgium	3.0
2 to 3 nights	15.5	12.3	France	13.3
4 to 7 nights	39.7	31.5	Ireland	2.6
8 to 15 nights	18.9	15.0	Italy	5.4
More than 15 nights	5.4	4.3	The Netherlands	4.4
Same-day visitors (0 nights)	42.4	33.6	Scandinavian countries	6.6
Tourists by mode of transport		100.0	Portugal	2.9
Air		82.1	United Kingdom	21.6
Road		15.2	Russia	1.6
Sea		2.3	Switzerland	2.2
Rail		0.4	Rest of Europe	7.7
Tourists by accommodation type		100.0	United States of America	4.0
Market		81.6	Rest of America	4.5
Hotel		65.4	Rest of the world	6.8
Other non-hotel market accommodation		16.2	Tourists by purpose of trip	100.0
Rented accommodation		11.2	Leisure, recreation and holidays	87.4
Other		5.0	Business or professional purposes	6.4
Non-market		18.4	Other	6.2
Own dwelling		5.9	Tourists by organisation of trip	100.0
Dwelling owned by relatives or friends		11.3	Non-package holiday	71.9
Other		1.2	Package holiday	28.1

SOURCE: INE.

6 The EUREGIO database includes, in the global input-output table, regional detail for EU countries at the NUTS2 level. For further information, see E. Prades-Illanes and P. Tello-Casas (2020). *Spanish regions in Global Value Chains: How important? How different?*, Working paper, Banco de España, forthcoming.

7 According to the INE's Tourism Satellite Account, tourism activities include, inter alia, accommodation, food and beverage, travel agency, tour operator and transport services.

8 As detailed in Section 4.2, the spillover effect on the overall economy of each additional €1 of tourism turnover is just over €2.

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From a regional standpoint, Spain's regions are clearly heterogeneous, not only as regards the weight of the tourism sector in terms of expenditure (see Chart 5), but also the type and seasonality of these flows.<sup>9</sup> In any event, through the various sectoral and interregional input-output relationships, all regions have a relatively high sensitivity to the sector. The foregoing is demonstrated by Chart 6, which illustrates the drop in the regions' GDP that would result from a reduction (equal to 1% of domestic GDP) in the activity of tourism-related services. Naturally, given their greater direct exposure, the impact on the Canary Islands and the Balearic Islands would be greater. Nevertheless, other regions that are less directly exposed would also suffer a relatively significant impact, owing to the aforementioned spillover effects.

In sum, this box has highlighted that the collapse of the tourism sector in recent months – mainly the result of the measures adopted to contain the spread of the COVID-19 pandemic – will not, foreseeably, be accompanied by a swift recovery in the short and medium term. There are several contributing factors, among which mention

should be made of the need to keep in place, for an additional period, certain restrictions on people's movement and on the activity of certain sectors in order to minimise the risk of a second wave of the pandemic. This – relatively negative – outlook for a sector of such importance to the Spanish economy points to the need to deploy an economic policy measure specific to this sector that aims to avoid the destruction of a significant part of its productive system. In this regard, on 18 June the government announced a plan to support tourism, based on providing liquidity to the sector's firms in the form of ICO loans and mortgage moratoria, and creating a credit line to fund firms' transition to a more digital, sustainable and competitive model. Here, like in other areas of the economy, it is necessary to be flexible enough to adapt the measures applied depending on how the situation evolves. In particular, two aspects, among others, that should probably be taken into account when designing future measures are the sector's high seasonality and the heterogeneous regional exposure to it.

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9 See, for example, A. Gómez and M. J. González (2014). "La evolución reciente del turismo no residente en España", *Economic Bulletin*, April, Banco de España.