UAE: COVID-19 fallout weighs heavily on tourism activity

The relative success of the UAE in reducing COVID-19 infection rates has helped in re-opening the economy sooner than other countries. Yet the pandemic fallout has hit economic activity hard, particularly tourism and travel sectors, with an adverse impact on growth prospects. Our baseline scenario projects a 24% fall in the (value added) output of tourism-dependent sectors in 2020. The impact will be most visible in Dubai as more than 90% of its economy is non-oil based and 40% of its economy is dependent on tourism. The UAE federal and local governments' efforts to support the business environment could partially alleviate some pressures, but the impact of COVID-19 continues to add uncertainty to the macroeconomic outlook.

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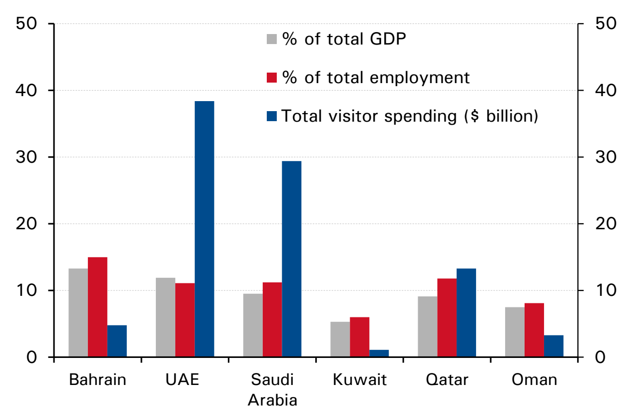
The tourism sector is considered one of the main pillars of the UAE's economic diversification policies and a reliable catalyst for GDP growth. Inbound tourists increased by more than three-fold from 6.4 million in 2006 to around 17 million in 2019. The direct and indirect contribution of tourism to GDP increased from less than 1% of GDP in 2006 to around 12% of GDP in 2019 (AED 178 billion), providing around 745 thousand Jobs (11.1% of total employment), according to the World Travel and Tourism Council (WTTC). Given the interlinkages between tourism and other sectors, growth in this sector will have a noticeable impact on economic activity and overall economic growth.

Growth in tourism-related sectors outpaced that in every other major non-oil sector, including that of financial services, which is normally cited as one of the most vibrant sectors in the UAE. Wholesale and retail trade, transportation, accommodation and food services, and arts & recreation, which constitute around 30% of UAE non-oil GDP, grew at an average rate of 4.4% in 2014-2019, faster than financial services (3.5%), construction (1.2%) and real estate activities (3.8%) during the same period.

In addition, UAE international tourism spending in 2019 ($38.4 billion) represented more than 40% of total tourism spending in the GCC ($90 billion). (Chart 1.) Thanks to the government's initiatives in implementing proactive policies to increase the growth of visitors by relaxing visa regulations for key source markets, the UAE continued to record improved key performance indicators (see table 2).

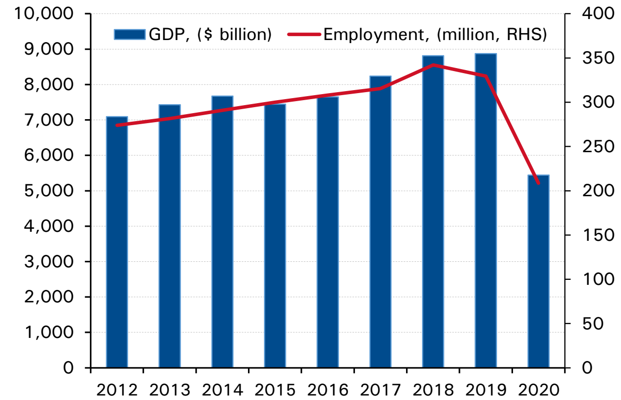
Chart 1: International visitor spending in the GCC



Source: WTTC, NBK estimates

However, global tourism is facing a deep crisis due to the fallout of COVID-19. Travel barriers and health containment measures have reduced global demand of these services to unprecedented levels. The Organization for Economic Cooperation and Development (OECD) in early June estimated a decline in international tourism of 60-80% in 2020. Moreover, the WTTC baseline scenario projected 53% and 34% reduction in international and domestic visitors in 2020. Under this scenario, global travel and tourism Job losses reach 121 million (Chart 2), or 3.5% of the world's 2019 labor force, while output drops $3.4 trillion, or 2.4% of world GDP. Losses in the Middle East are expected to be large given the high dependency of oil importing countries on tourism, reaching 3.4 million Jobs and $125 billion in 2020 due to the projected fall of 54% in international visitors and 35% in domestic tourism in 2020, according to the WTTC.

Chart 2: Global tourism losses in 2020



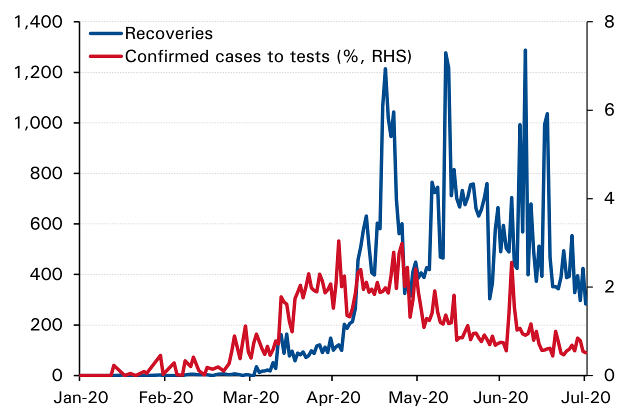
Source: WTTC

The impact of COVID-19 on travel and tourism is not seen fading any time soon given the perceived risks and the tendency for people to postpone their travel plans as long as they can, even with the re-opening and the easing of the global restrictions. The International Air Transport Association (IATA) projects that recovery to pre-COVID-19 levels could take 3-5 years. Countries would need to implement support policies that would encourage people to travel by adapting new travel behaviors and preferences post-COVID-19 and implement strict safety protocols to regain consumers' confidence, and providing financial incentives that reduce the cost on tourism-related companies, such as airfares, and hotel and restaurant meal discounts. In fact, Dubai government just provided $2 billion in support to Emirates and expressed willingness to provide more support according to the airline's requirement and the duration of the COVID-19.

The impact of COVID-19 on the UAE travel and tourism sector

The success of the UAE in reducing infection rates has helped in an early re-opening of the economy. The spreading of the virus since late February led to severe health and movement restrictions in the UAE. The government suspended all flights on March 25, while imposing severe restrictions on movements between emirates and locking down the economy for more than one month. Strict restrictions and high testing percentage have helped the UAE in containing the spread of the virus and easing restrictions in early June as airports around the country were allowed to operate limited flights. (Chart 3.)

Chart 3: COVID-19 cases in the UAE



Source: FCSA, NBK estimates

Despite the efforts to contain the spread early on, tourism offices and companies were hit hard and many of them are expected to shut down by the end of 2020. The Dubai Chamber of Commerce surveyed 1,228 companies during April–May of 2020 and found that around 74% of travel and tourism firms are expected to close within the next six months while 30% of transportation, storage and communication companies are expected to meet the same fate. The figures illustrate the breadth of the impact of the virus on these sectors and the non-oil economy. Indeed, the UAE PMI went below the 50 benchmark in 1H20, indicating that the private sector in the UAE is suffering from the repercussions of the crisis through lower output and shrinking employment due to sluggish demand and disruptions in supply chains, some of which was triggered by a contraction in the tourism industry.

Furthermore, the travel industry has reported a significant drop in activity since mid-February as the COVID-19 pandemic caused an unprecedented drop in international travel. Border closures, the suspension of flights, and other stringent travel restrictions have placed airlines under severe pressure as revenue withers. Emirates airlines announced an AED 3.4 billion decline in revenues in March and a 28% q/q drop in fourth quarter profits (January-March 2020) due to the COVID-19 pandemic. Moreover, the number of Etihad airways passengers fell to 3.5 million in 1H20, a reduction of 58% from the same period the previous year, while revenues dropped 38% to $1.7 billion compared with $2.7 billion during the same period last year.

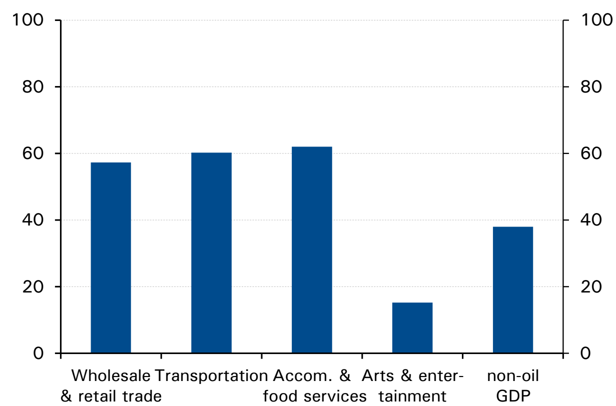
In Abu Dhabi, the number of international hotel guests fell by 47% y/y last March, which resulted in a significant decline in the revenue per available room by 51% y/y, according to the Abu Dhabi Tourism & Culture Authority. As a result, hotel revenues fell by 53% y/y. The temporary suspension of entry visas played a major role, including the suspension of all inbound and outbound passenger flights and the transit of airline passengers in the UAE.

The COVID-19 impact will be most visible in Dubai as more than 90% of its economy is non-oil based and 40% of its economy is highly dependent on tourism. (Chart 4.) Dubai's contribution to the UAE's tourism-related sectors (wholesale & retail trade, transportation, accommodation & food services, and arts, & entertainment) is more than half, while the rest comes from Abu Dhabi and the northern emirates. Moreover, while Dubai's GDP fell 3.5% y/y in 1Q20, tourism-related industries in Dubai declined at a faster rate of 7.9%.

The impact in 2Q20 will be more acute as most of the travel restrictions and lockdowns were put in place during the first two months of the second quarter. Moreover, the postponement of Dubai's EXPO 2020 until October of next year due to the spreading of COVID-19 will prolong the recovery time to reach pre-crisis activity levels, but it could help the tourism and aviation industry to recover in the next two years. However, the outlook for the economy is still ambiguous due to the uncertainty around the spreading of the pandemic globally and policy responses that continue to evolve including those to ensure the viability of the tourism sector.

Chart 4: Dubai Share of UAE's tourism related sectors

(% of total UAE GDP in the same sector)



Source: DSC, FCSA, NBK estimates

Government response to the COVID-19 challenge

The UAE federal and local governments enacted multiple stimulus packages to support the business environment. These packages aimed at solving the cash flow problems faced by businesses, especially SMEs, but also at cutting the cost of running a business through multiple waivers on fees for various sectors including the hospitality sector and dependent industries. The Central Bank of the UAE announced in April a stimulus package of AED 256 billion

($69.7 billion) that included AED 50 billion of funding support at zero cost that focuses on supporting the SMEs and facilitating lending to domestic businesses. In addition, tourism, municipality and commercial vehicle registration fees were suspended until the end of 2020. Moreover, hotels and hotel apartments benefit from six-month payment deferrals of connection fees for water and electricity, while tourism licenses and fees were waived for six months.

Furthermore, Dubai froze the fees on issuing permits as well as other government-related fees on recreational and commercial activities, including freezing the market fee of 2.5% levied on annual rent for all facilities operating in Dubai. Meanwhile, the Ras Al Khaimah Tourism Development Authority created a dedicated financial incentive package for non-government-owned tourism enterprises including hotels up to four stars, tourist attractions, and golf courses. The UAE government has also put in place policies to support SMEs. Many of the adopted measures to support the SME sector are accessible to businesses in the travel and tourism sector. Government policy responses to solve liquidity problems for SMEs include deferring bank payments, and the recent adoption of a flexible stimulus plan that will have more emphasis on SMEs through multiple initiatives that include the labor market, trade, enhanced flexibility of financing activities, productivity, and digital transformation.

COVID-19 will weigh heavily on non-oil growth

UAE non-oil growth is expected to go into contraction in the current year, partially due to the COVID-19 repercussions on tourism activities. To determine the effects of the decline in tourism on non-oil GDP, we have constructed three scenarios with different volumes of declines in international visitors, and, ultimately, levels of international tourism expenditure. These different levels of tourism expenditure result in various impacts on local, regional and national GDP and employment. The results points to a large deviation from the strategic tourism plans for different emirates, which aimed at increasing tourism total contribution to GDP.

Table 1: Tourism scenarios for 2020

Item		Scenario 1	Baseline Scenario	Scenario 2
International Visitors	% Change	-70%	-50%	-30%
Travel & tourism related industries* GDP	% Change	-32.0%	-23.5%	-14.5%
Tourism receipts, BOP	AED billion	23.6	39.4	55.2
Total Contribution to Non-oil GDP	% of non-oil GDP	9.9%	12.2%	14.3%
Total Contribution to GDP	% of GDP	7.0%	8.6%	10.2%
Real non-oil GDP	% Change	-8.15%	-5.6%	-2.9%
Real GDP**	% Change	-8.07%	-6.3%	-4.4%

Source: WTTC, FCSA, SCAD, DSC, visitDubai.com, NBK estimates,
* Include wholesale *retail trade, transportation, accommodation and food services activities, and Arts, entertainment and recreation.
** Oil GDP is estimated to decline by -7.9% in 2020.

Our baseline scenario, which assumes a drop of around 50% of international visitors and a 20% fall in domestic visitors, would reduce tourist spending from AED 81 billion in 2019 to around AED 39.4 billion ($10.7 billion). Moreover, the GDP of tourism-related sectors (30% of non-oil GDP) is expected to decline by 23.5% in 2020, assuming an improvement in 2H20 due to the ease of travel restrictions. The sector's contribution to GDP is expected to drop to around 8.6% in 2020, down from 11.9% in 2019. On the other hand, in a more optimistic scenario of a speedy recovery in 2H20 with a decline of only 30% in international tourists and 10% in domestic visitors, GDP of tourism-related sectors could decline by a smaller 14.1% in 2020. The contraction in non-oil GDP would be much lower than our baseline scenario at 2.9%, with tourism contribution to GDP at 10.2% under this scenario.

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These scenarios are illustrative as there are considerable uncertainties surrounding the outlook for GDP growth and the recovery of the tourism sector, and the impact of COVID-19 on the UAE macroeconomic outlook. The UAE's relative success in reducing the spread of the virus has made it possible to move to a new phase where the government is managing the re-opening of the economy while fighting the virus. However, the lack of coordination pertaining to health containment measures across source countries and the possibility of a second virus wave could increase the time needed for business activities to recover to pre-COVID-19 levels. This would add more pressure on the government to continue supporting the tourism sector for longer as health protocols will restrict businesses' capacity utilization in the medium term.

Table 2: Tourism Main Indicators in the UAE

						% Change		
		2016	2017	2018	2019	2017	2018	2019
Number of Establishments		1060	1058	1106	1136	-0.2	4.5	2.7
Actual Guest Arrivals	Million persons	22.9	24.6	25.5	27.1	7.7	3.7	6.2
Guest Nights	Million nights	73.9	78.2	80.3	85.0	5.9	2.8	5.8
Length of Stay (average)	Days	3.2	3.2	3.14	3.13	-1.9	-0.9	-0.3
Rooms (No.)	Thousand	155.7	162.2	173.1	183.2	4.2	6.7	5.8
Occupancy room Rate (%)	Percentage	75.0%	76.2%	73.5%	74.1%	1.5	-3.5	0.9
Total Revenue	AED billion	31.6	31.7	31.3	30.7	0.4	-1.3	-2.1
Room Revenue	AED billion	19.2	19.3	19.0	18.2	0.5	-1.6	-3.9
Food & Beverages	AED billion	11.5	11.5	11.6	11.6	-0.4	0.8	0.7
Other Revenue	AED billion	0.9	1.0	0.8	0.8	7.8	-19.6	0.9
Hotel guests according to Nationality, million persons unless otherwise indicated								
UAE		3.9	4.2	4.3	4.6	8.7	1.6	6.0
GCC		3.8	3.6	3.3	3.3	-5.8	-7.4	-0.5
Arab countries		2.6	2.7	2.6	2.9	3.2	-2.3	10.7
Asian Countries		5.1	6.0	6.5	7.1	17.3	9.6	8.1
European Countries		5.0	5.6	6.1	6.4	10.9	8.9	4.7
American countries		1.2	1.3	1.3	1.4	7.0	5.7	4.8
African countries		0.8	0.9	1.0	1.2	4.1	14.6	19.8
Other		0.4	0.5	0.4	0.4	4.1	-20.4	-2.2
Total		22.9	24.6	25.5	27.1	7.7	3.7	6.2

Source: FCSA

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