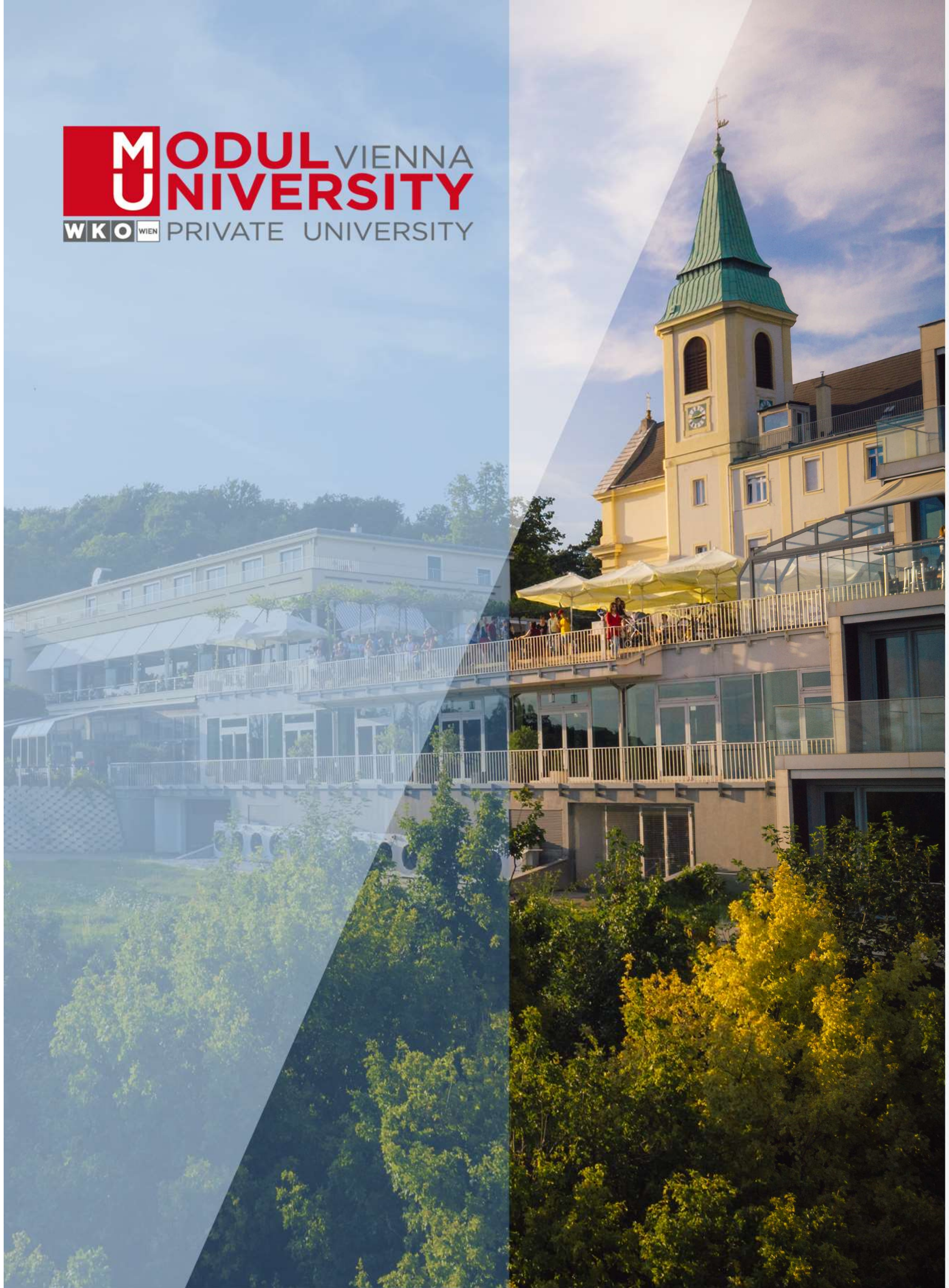

Impact of the COVID-19 Pandemic on the Economic and Tourism Development in Europe's Regions and Countries

EGON SMERAL, Modul University Vienna, Austria

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Introduction (1)

The spread of the Coronavirus started in China by the end of 2019 showed fast strong global economic impact.

The triggered COVID-19 pandemic and the containment measures enacted by the governments of many countries damaged the world economy in a severe way.

The stringent restrictions on business and social life (including travelling) and the following economic downturn caused unique dramatic losses for the tourism industries.

Introduction (2)

- In 2020, global GDP decreased by 3 %.
- Rough estimates of the total economic costs of the pandemic in 2020 approximate 100% of global GDP in 2019 (Yeyati and Filippini 2021). These estimates include:
  - the recession costs in 2020,
  - growth losses for the period from 2021 to 2030,
  - fiscal impulses,
  - changes in government debt,
  - the statistical value of deaths related to COVID-19 as well as
  - losses in education and human capital.

Introduction (3)

- These shocks have made us ask for the resilience of socio-economic systems, especially in the case of the most suffering sub-system tourism as a regional phenomenon.
- The tourism industries got hit very strongly from the Pandemic, the imposed containment measures and the triggered economic downturn.
- International arrivals decreased on a global scale 2020 by 73%.
- Despite of the strong recovery of the world economy by 6% in 2021 only a mild upturn of international arrivals by 4,6% could be realized and remained 71,3% below the level of the pre-pandemic year 2019 (UNWTO, 2022).
- Also the expectations for the current year are not overwhelming as the international arrivals will have indeed a strong rebound, but stay significantly under the pre-crisis levels.

Introduction (4)

- After several up and downs since spring 2022 the pandemic seems to fade out, or had at least in case of intensive care in hospitals less impact on the health systems.
- As a result we had hopes on a step by step recovery.
- However, a new virus – called the Russian invasion of the Ukraine – infected the economy and the political climate.
- This war has crucial negative impact on real incomes, trade, energy and raw material prices and will dampen 2022 the economic growth rates as well the recovery of tourism demand.
- Instead of 4½% as expected the world economy will grow 2022 with a more optimistic view only by around 3%.

Introduction (5)

- Longer persisting crises triggered by a pandemic and a military conflict combined with major recessions and high inflation rates can be viewed as ‘system-wide’ shocks that periodically interrupt and disrupt the process of economic growth and the development of the society.
- Questions arise do regions/countries differ in the extent to which they recover and rebound from severe shocks? Do regions that are more severely affected by such shocks grow more slowly than other regions as a result?
- And finally, how does the socio-economic subsystem tourism react in Europe’s regions on severe shocks? Does the reaction depend on the degree of diversity in the different destinations/regions and/or on the different governance and preparedness?

Introduction (6)

- The remainder is:
  - This study explains some recent development trends by sectors, regions and countries
  - Further, the study concentrates on short and medium term forecasting of the demand for international travel.
  - In the conclusion we will evaluate the forecasts according to relevant risks.

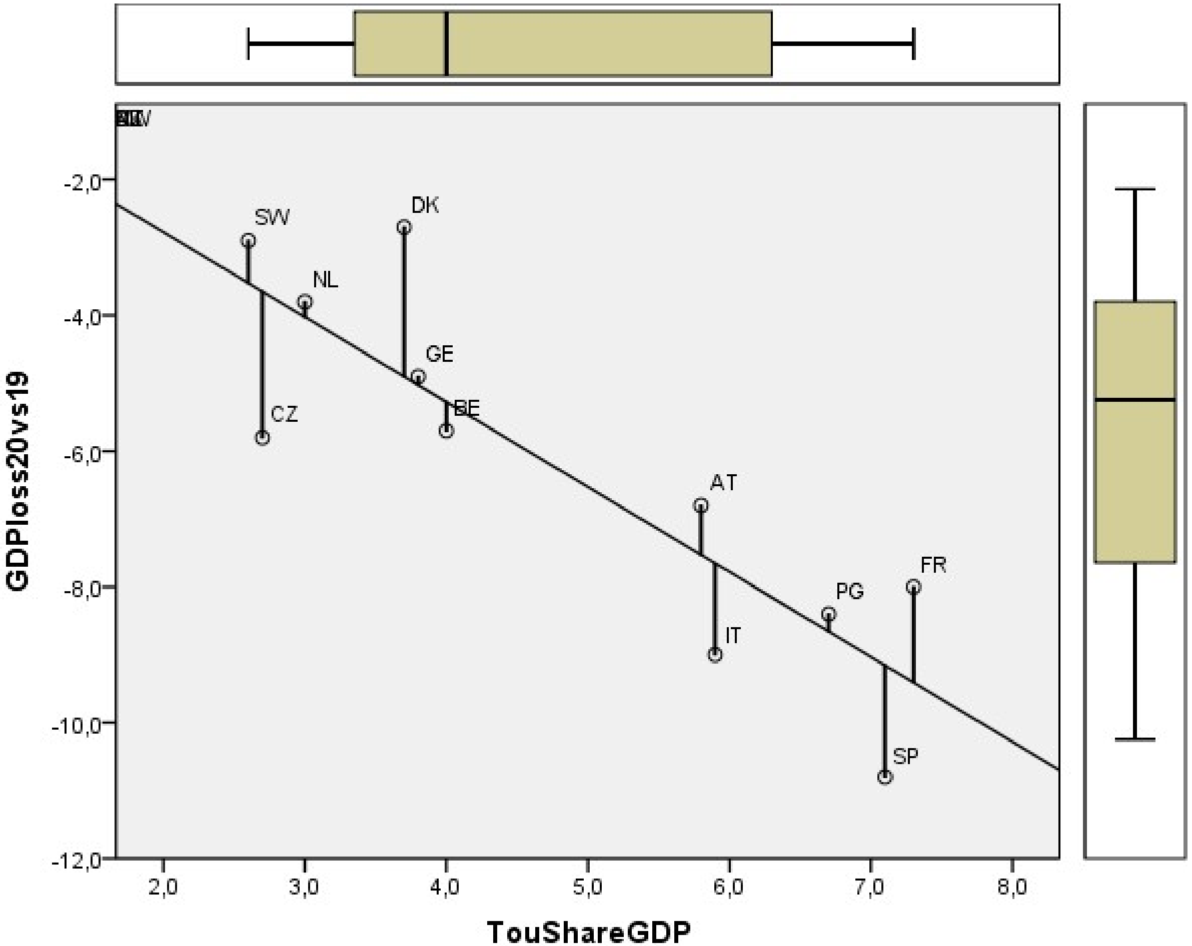
Recent development trends (1)

- Resilience against shocks varies considerable across sectors/regions/countries and is also related to their sizes.
- Larger regions/economies often have more potential to diversify and have mostly also a more diversified population than smaller regions.
- In cases of pandemic situations such as the COVID crisis diversified economies and societies offer also mostly more job possibilities in sectors with no or low personal contacts (specific scopes of production, disembodied services).
- Diversified economies/regions have in general higher development stages:
  - and that facilitates the use of technology for education, meetings, and the exchange of experiences with cultural, entertaining and sportive backgrounds.

Recent development trends (2)

- The consequences of a relative high dependency from a personal contact intensive production structure could be shown in case of the tourism development in 2020.
- Data for 2020 show that these countries with a relative high tourism shares such as France, Italy or Spain suffered also under strong GDP losses.
- Other countries such as Germany, the Netherlands or Sweden with a low dependency on contact intensive services documented below average GDP decreases.
- Our analysis is based on data of selected EU-countries and shows the GDP-decreases in 2020 and the direct tourism shares in the GDP before 2019.

Recent development trends (3)



Recent development trends (4)

- The econometric estimation of the dependency of the loss in real GDP 2020/19 in percent of selected EU-countries from their tourism shares in GDP in percent showed a strong connection beteen these 2 variables:
  - The adjusted R-squared explains around almost 80% of the variance in the GDP-losses.
- Another analysis based on the same countries like above showed also a relationship between the shares of IT related services in the service exports and the GDP losses:
  - Countries with high IT shares (and a given likelihood of low travel shares) can expect lower GDP losses.
  - According to the results of the econometric estimation the variance in the IT shares explains around 60 percent of the variance in the GDP losses.

Recent development trends (5)

- With the focus on the regional resilience a study of the EC (2021) about „regional Impacts of the COVID-19 crisis on the tourist sector" showed that
  - regions with the lowest resilience to shocks have a low diversification degree, a low quality of governance, and a low innovation potential such as
  - Adriatic Croatia,North-Eastern Bulgaria, and the italian regions of Liguria, North and South Agean, Crete, the Ionian Islands, Peloponnese, Andalucia, Valencia, Canary and Balearic Island, Sardegna, Friuli-Venezia, Lazio, Valle d'Aosta, and Tuscany.
  - Regions with a good or better resilience are a reflection of the classical „Nord-South Divide"

Forecasts (1)

Short term

- War impacts are stronger than the late effects of the pandemic:
  - According to recent model simulations by OECD (2022) we can assume that global growth could be 2022 reduced by at least over 1 percentage point, and global inflation will raise by at least 2½ percentage points additionally in the first year after the start of the war.
  - Russia could suffer under a output decline by over 10% and inflation will rise by close 15 percentage points.
  - The impact of the shocks differs across countries, with the European economies and regions being hardest hit, particulary those close to Russia and Ukraine.
  - The Euro area could have a growth loss between 1½ - 2 percentage points.
    - Increased commodity prices explain around 80% of the growth loss.
    - Financial shocks and the decline of the Russian domestic demand explain around 20% of the growth loss.

Forecasts (2)

- The USA has a by far lower growth loss than the Euro area (around 0,9 percentage point).
  - Similar than the Euro area increased commodity prices explain most of the growth losses.
- In 2022 tourism sales in EU would faced a subdued development because of
  - the war impact (growth and income losses, high raw material prices and inflation, increase in transportation costs, less oversea tourists will come to Europe, less business travel).
  - late COVID-19 effects („travel security plays“ a role, access restrictions).
- According to UNWTO (2022) is in the optimistic case 2022 a growth rate of the international arrival of around 70% to expect, that is around 50% of the 2019 level.
- In a pessimistic view the growth rate might be only 30%, that is around two thirds lower than the pre-crisis level.

Forecasts (3)

Medium term

- We assume that the pandemic will gradually slow down during the forecasting period, supported by an increasing vaccination quota, but not fade out completely.
- Society will learn to avoid strong breakouts of the infections and to live with a virus becoming endemic.
- Parallel to the slowing down of the pandemic, containment measures will be lifted so that consumption and travel behavior will show normalizing tendencies.
- According to the improved health situation and the disappearing fears to suffer under lockdowns, the economy will revert to a recovered investment climate and will realize satisfying GDP growth rates.
- As we look in the medium-term we assume that the negative war-effects for the economies and tourism have only a short term impact and get balanced out in the next years.

Forecasts (4)

- Similar we assume that the supply chain problems will start to fade out by 2023.
- Considering the increasing inflation pressure mostly triggered by energy, raw material, and semi-finished product prices, we assume that we capture these price effects with a subdued development of the real incomes.

- For the medium term forecast we employed an error correction approach.
- The Error Correction Model (ECM) reflects both the long-run and short-run effects in a single model.
- The specification indicates in a very simple way that changes in y_t (= tourism demand) depend on changes in x_t (GDP) and the disequilibrium error in the previous period.
- Based on an Error Correction Model (ECM) could be shown that it could take in the EU 5-6 years until the tourism 2019-levels could be reached again
- For this catching up process tourism growth rates in the magnitude from 10%-15% per year are needed.

Conclusion (1)

- We have to admit that we cannot use experiences from other similar events to estimate the consequences of a pandemic such as the COVID-19 crisis and the war between Russia and Ukraine for the economy as well as the tourism and leisure industries.
- In terms of tourism forecasting, we had never been confronted with such strong demand fluctuations and such a bottomless fall in the market resulting from the stop and go policies employed to contain the various waves of infection.
- We have realized that the notion that “tourism is a resilient industry”and supports the regional economy does not hold in the case of pandemics or wars.
- Further, we have to admit that countries with high tourism shares suffer from particularly strong decreases in GDP.

Conclusion (2)

- Therefore, we have to face forecasting risks related to the demand level and growth rates:
  - Too strong growth losses in 2022 as well as a not ending war between Russia and Ukraine would also dampen the chances to balance out the growth losses in the medium-term.
  - New variants of the COVID-19 virus: further containment measures, which have negative impacts on the economy in terms of trade and supply chain disruptions, price increases and slowing demand recovery.
  - Inflation: the conflict between Russia and the Ukraine will take longer with the result that more critical links in the supply chains will be destroyed and and more supply shortages will appear, and the price pressure will increase.
    - An evaluation of the forecast must consider including monetary policy, which must now traverse the fine line between tackling inflation triggered by supply shortages and war effects and supporting the economic recovery while managing financial risks.

Conclusion (3)

- Rising inflation could present a trade-off situation in which monetary policy must select between
  - either supporting the recovery of the economy
  - or getting ahead of price pressures by tightening money markets, even if that delays the recovery of the labor market.
- The alternative of waiting for stronger employment outcomes runs the risk that inflation increases in a self-fulfilling way, undermining the credibility of the policy framework and creating more uncertainty.
- Growing uncertainty could hold back private investment and lead to a slower employment recovery

- Real income and savings: high prices for energy and food reduce the real incomes and forces households to use their pandemic related excess savings to balance out at least partly the rise in costs, the expected consumption boom will not come.
  - Consequences are:
  - because of the rise in costs travelling activity will decrease or there is less or nothing left to spend on vacation.
  - Business travel and conference participation will decrease.

Thank you for your
attention!

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