

# Research Brief | GCC

## Perfect storm to hit GCC tourism hard

### Economist

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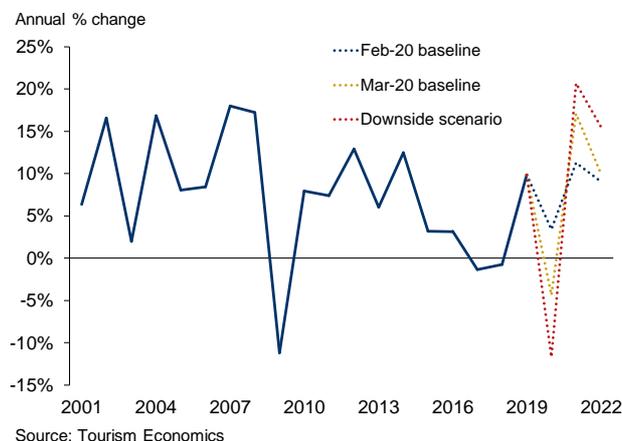
- **As in the rest of the world, the coronavirus pandemic is expected to hit the travel and tourism sector in the GCC hard. Europe is now the epicentre of the pandemic and some of the GCC's key source markets are being severely affected. We are making significant downgrades to passenger travel from major European economies.**
- **Tourist numbers are expected to decline by at least 4% in our revised base case, with the majority of the fall in Q2 and a strong rebound towards the end of 2020. However, as the pandemic is proving more pervasive, double-digit drops in the downside case are becoming likely. Several GCC countries are now staring at recession in their non-oil economies.**

Coronavirus is whipping up a perfect storm for the economies of the GCC. As we discussed in a recent [note](#), the slump in oil prices will hit public finances hard and lead to fiscal consolidation across the region. Meanwhile, travel restrictions and social distancing is hitting the travel industry hard and the ramifications are likely to be significant – travel and tourism is the mainstay of the non-oil economy in the region, accounting around 10% of GDP in most GCC countries. Governments across the region have been pinning their hopes on this sector to achieve their diversification objectives.

Tourism Economics has published a [Research Brief](#) updating its global travel and tourism forecasts. Global arrivals are now expected to fall by over 10% in 2020 (more than 155m fewer than in 2019) with most of the decline occurring in Q2, but this should be followed by strong growth that ensures full recovery by 2022. Some of the countries hit hardest – the UK, Germany and Italy – are important source markets for the GCC, meaning arrival numbers will slump (**Chart 1**). The aviation sector will also feel the impact of declining long-haul travel that transits in the GCC, especially the UAE and Qatar.

### Chart 1: Tourist arrivals plunge across the GCC

#### GCC: Tourist Arrivals



Travel and tourism is the mainstay of the non-oil sector across the GCC and the impact of the coronavirus is hitting hard. The sector should rebound strongly, but there is a risk that the impact in 2020 will be deeper and longer than we currently forecast.

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## Cold winds of coronavirus chill tourism

While the coronavirus outbreak appeared to be a China-centric issue, the GCC travel and tourism sector seemed relatively well-insulated. Now the World Health Organization (WHO) has named Europe as the epicentre of the pandemic and there are rising cases across the Middle East, the GCC's main tourist markets are being pulled into the crisis. This is further magnified by the imposition by India, which is an important market, of a 14-day quarantine on arrivals from the GCC. As shown in **Chart 2**, Europe, South Asia and the rest of the Middle East account for most arrivals in the GCC.

Some of the countries now likely to witness significant falls in outbound tourism are in Europe. Tourism Economics has made significant downgrades to outbound travel from Italy (which is in complete lockdown), Germany, France, Spain and the UK, with all these countries now forecast to see 10%+ declines in outbound flows (**Chart 3**). This will impact the GCC as a destination and also reduce Europe-Asia travel through hubs such as Dubai, Abu Dhabi and Doha.

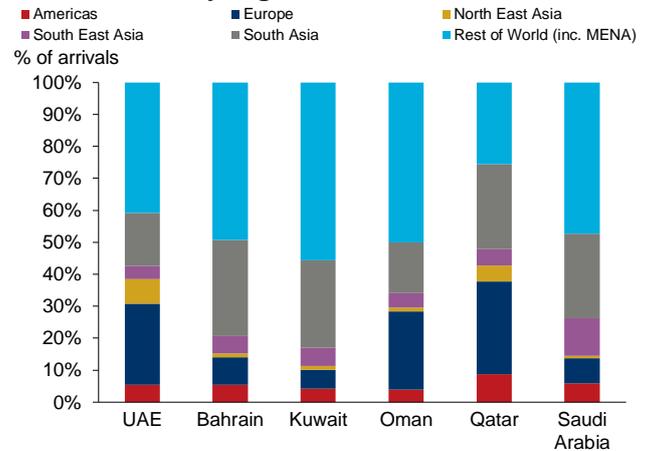
The policy response of GCC governments is also contributing to the hit being experienced by the travel and tourism industry. Official travel restrictions are being applied across the GCC: the UAE continues to apply travel restrictions against countries with a large number of cases, while other countries in the GCC including Saudi Arabia, Kuwait and Qatar have banned international visitors. Announced policy is that these restrictions will apply for a relatively short period, but it is likely they will be extended.

In addition, music festivals, sporting events such as the Bahrain Formula 1 Grand Prix, and other major events such as Umrah in Saudi Arabia are being cancelled across the GCC in order to slow the spread of coronavirus. This will lead to trips being cancelled from countries without travel restrictions. It also limits the ability of domestic residents (who are unable to travel abroad) to fill the gap left by fewer international tourists. Expo 2020 has yet to be cancelled, and this remains a big forecast risk for the UAE.

Overall, we expect a sharp contraction in tourist arrivals in the GCC, with arrivals falling by at least 4% on average and 8% in the UAE (**Chart 4**). However, COVID-19 continues to spread and more restrictions are being put in place, meaning double-digit drops in arrivals are looking more likely. This scenario could easily push the non-oil sector in several GCC countries into recession.

**Chart 2: The rapid spread of the coronavirus in Europe leaves the GCC vulnerable**

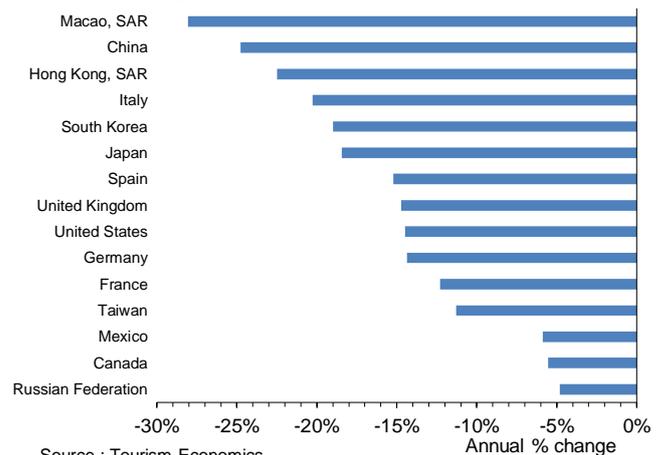
**GCC: Arrivals by region in 2018**



Source: Tourism Economics

**Chart 3: Largest drop in departures growth by country in 2020**

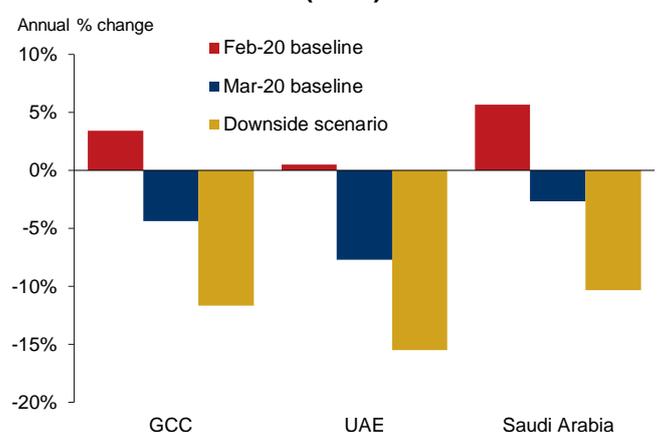
**Departures growth (2020)**



Source: Tourism Economics

**Chart 4: The balance of risks suggests further forecast downgrades are probable**

**GCC: Tourist Arrivals (2020)**



Source: Tourism Economics