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THE PHILIPPINE TOURISM SECTOR AMID THE PANDEMIC: Developments and Prospects

By:
Kristhel Anne M. Caynila, Katherine T. Luna, and Sarah Amabelle A. Milla[1]

[1] Ms. Caynila is Bank Officer IV while Ms. Luna is Bank Officer V and Ms. Milla is Bank Officer VI at the Department of Economic Research.

The tourism sector is a key contributor to the resilience of the Philippines' external payments position and overall economic development, alongside overseas Filipino (OF) remittances and business process outsourcing. As one of the country's biggest employers, it provides various opportunities for businesses and individuals from all segments of society and supports sustained structural foreign exchange (FX) inflows. But given the contact-intensive nature of the tourism sector, it has been significantly hit by the COVID-19 pandemic. Nonetheless, prospects for recovery in travel services are improving amid accelerated mass inoculation and easing of travel restrictions.

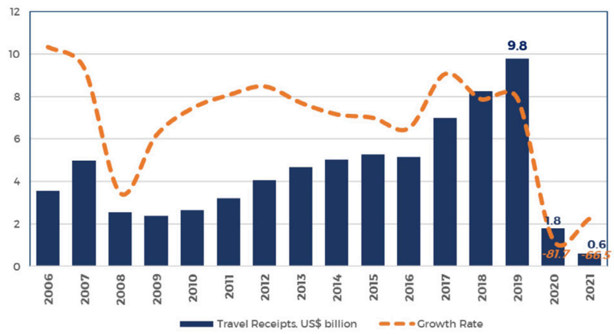
Travel services and the country's external sector position

Travel services is one of the main sources of FX inflows in the country's balance of payments (BOP). It accounts for about 20 percent of total services exports reflecting an average of 15 percent sustained growth over the past decade (from 2010 to 2019, pre-pandemic).

The increasing demand for tourism and travel-related services in the country in recent years is partly due to the rapid growth in the hotel and resort industry and the expansion in the casino and gaming sector. International cruise and nautical tourism has also been growing, with the country tagged as one of Asia's top destinations for cruise ships. Similarly, the Philippines ranked eighth among the top medical tourism destinations globally.[2]

In 2019, travel services reached US$9.8 billion **(Figure 1)**, representing a growth of 18.7 percent year-on-year (y-o-y). Of this, US$9.3 billion, or 95 percent, came from tourism receipts (20.8 percent y-o-y growth). However, travel services declined by 81.7 percent to US$1.8 billion in 2020, and by another 66.5 percent in 2021 to only US$600 million.[3] Tourism receipts comprised 90.6 percent of the travel services in 2020.

Figure 1. Travel Services, 2006-2021 levels in US$ billion, growth rates in percent



Source: Philippine Statistics Authority

Share of the tourism sector in the domestic economy

Before the pandemic, the tourism industry was one of the key contributors to the sustained growth of the Philippine economy. Over the past decade, the country's tourism direct gross value added (TDGVA)[4] in current prices grew by almost five-fold.

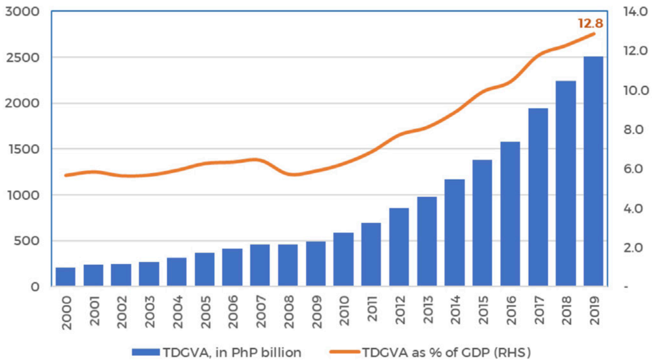
[2] ASEAN Briefing, "Tourism Industry in the Philippines" 2017

[3] Tourism receipts are sourced from the Department of Tourism (DOT) Visitor Receipts

[4] TDGVA is the total gross value added by tourism industries of the economy that directly serve visitors in response to internal consumption.

From P460 billion (5.7 percent of GDP) in 2008, it reached P2.5 trillion (12.8 percent of GDP) in 2019 **(Figure 2)**.

Figure 2. Tourism Direct Gross Value Added (TDGVA), 2000 to 2019 levels in PhP billion



Source: Philippine Statistics Authority

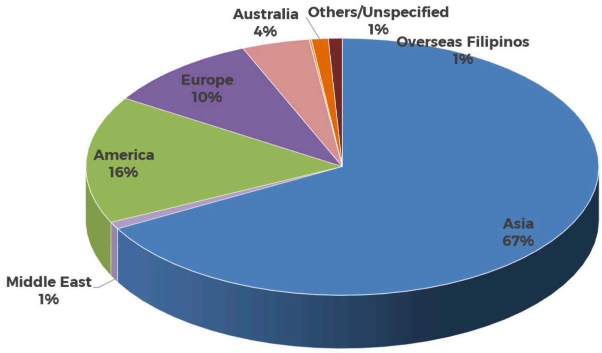
The significant improvements in tourism infrastructure, particularly, airports, land transport, and hotels during the said period spurred this growth. The gross value added of tourism industries (GVATI)[5], which includes all establishments in tourism industries, regardless of whether they serve tourists or not, amounted to P3.3 trillion in 2019. Of this, accommodation services, food and beverage services, and transport services accounted for almost 60 percent of the total industry's gross value added. The 2019 GVATI level represents 16.9 percent of the country's GDP.

Domestic tourism expenditure comprised the bulk (84 percent) of the country's internal tourism expenditure at P3.1 trillion in 2019. The robust domestic tourism expenditure supported domestic demand in the past decade, accounting for 5.2 percent of GDP in 2008 to 16.1 percent of GDP in 2019. In addition, its share in household consumption also increased notably in 2008 to 2019 from 7.1 percent to 22.0 percent, respectively. For the past 10 years (2010 to 2019), accommodation accounted for most of the total tourism expenditure at 27 percent on average. This was followed by miscellaneous products at 22 percent, and shopping expenditures at 18 percent.

Meanwhile, inbound tourism or the tourism expenditures of non-resident visitors (including non-resident OFs) in the Philippines, accounted for the remaining 16 percent of the country's internal tourism expenditure. It recorded its highest level in 2019 at P600 billion, with a growth rate of 34.7 percent from the 2018 level. This is equivalent to 3.1 percent of GDP and 10.8 percent of the country's total exports. Historically, most inbound travels in the country were usually for holiday/leisure and were generally spent in Cebu, Rizal, Davao del Sur, Aklan, and Batangas.[6] Almost half of foreign/non-resident tourists' expenditures, on average, went to accommodation and food/beverage services.

Most tourists arriving in the country (around 80 percent) came from Asia and the Americas **(Figure 3)**. In 2019, the country received 8.3 million tourists (including non-resident OFs), largely from Korea, China, USA, Japan, and Taiwan. These comprised 70 percent of the year's tourist arrivals. Travel receipts reached US$9.3 billion in 2019, up by 20.8 percent from the tourist receipts of US$7.7 billion in 2018.

Figure 3. Visitor Arrivals by Country, 2019 percent share to total



Source: Philippine Statistics Authority

[5] GVATI is the sum of all gross value added from establishments that are considered tourism industries, regardless of whether they serve tourists or not.

[6] DOT Visitor Sample Survey

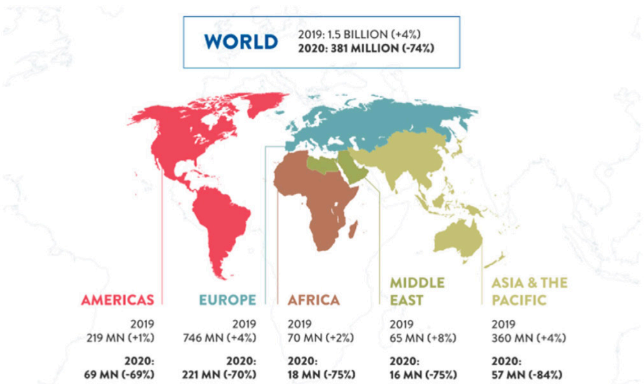
As one of the biggest employers in the country, the tourism sector was able to employ around 5.7 million in 2019, representing 13.6 percent of the country's total employment. This was an increase of 6.6 percent from the 2018 tourism employment level of 5.4 million (13.0 percent of total employment). About 70 percent of the employment were in the accommodation/ food and beverage (33.8 percent share of total employment) and passenger transport (38.2 percent) sectors. These two tourism-characteristic sectors accounted for 9.8 percent of the Philippines' total employment in 2019.

Impact of the COVID-19 pandemic on tourism

The tourism sector is one of the economic sectors strongly hit by the COVID-19 pandemic, as almost all countries, including the Philippines, have closed their territorial borders and imposed strict quarantine measures to curb the spread of the virus. The sudden halt in the demand for travel and tourism-related activities resulted in severe loss of revenues and surge in unemployment across all tourism enterprises.

Globally, international tourist arrivals fell by 74 percent in 2020, which was tagged as "the worst year on record" for travel **(Figure 4)**. This translated into a loss of US$1.3 trillion receipts or 1 billion tourist arrivals in 2020, more than 11 times the loss recorded during the 2009 global financial crisis. Asia and the Pacific suffered the largest drop in international arrivals at -84 percent, followed by Middle East and Africa (-75 percent), Europe (-70 percent) and the Americas (-69 percent).[7]

Figure 4. Global Tourism in 2020



Source: Philippine Statistics Authority

Although global tourism arrivals recovered slightly with a 4 percent growth in 2021 compared with 2020, these figures were still 72 percent below pre-pandemic levels. While rising rates of vaccinations and easing of travel restrictions released some pent-up demand, the rise in COVID-19 cases in early 2022 following the spread of the Omicron variant presented continued risks to the sector's recovery prospects. International tourism continued its gradual recovery at the start of 2022, with global international tourist arrivals increasing by more than twice (130 percent) in January 2022 compared with 2021. Europe and the Americas recorded the highest growth rates in arrivals in January 2022, expanding by 199 percent and 97 percent, respectively. The Middle East (89 percent) and Africa (51 percent) also exhibited positive outturns in January 2022 over 2021; while Asia and the Pacific recorded a 44 percent year-on-year increase, as several destinations remained closed to non-essential travel. These increases in international arrivals across regions were, however, still below the pre-pandemic levels.[8]

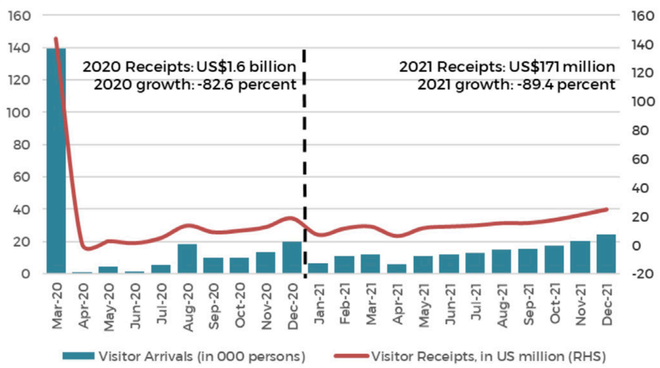
The Philippines was among the first countries to go on a lockdown in March 2020 and resorted to stricter restriction. This stringent lockdown called Enhanced Community Quarantine, or ECQ, resulted in a sharp decline in domestic demand and production, international trade, and high unemployment. The National Economic and Development Authority (NEDA) estimated that the cost of the COVID-19 pandemic in 2020 was P4.3 trillion, and that real output will converge to its pre-pandemic growth path only after about 10 years.

[7] January 2021 UNWTO World Tourism Barometer, 2020 worst year in tourism history with 1 billion fewer international arrivals.

[8] UNWTO. "Tourism enjoys strong start to 2022 while facing new uncertainties", dated 25 March 2022.

The country's tourism sector felt the negative impact of the pandemic much earlier in 2020, as countries started to impose travel restrictions and measures as early as January 2020. Both the country's international tourist arrivals and tourism receipts fell by about 80 percent in 2020 and by about 90 percent in 2021 **(Figure 5)**. Tourist arrivals declined to 1.5 million in 2020 from the 8.3 million tourists recorded in 2019, translating to travel receipts amounting to US$1.6 billion in 2020 (from US$9.3 billion in 2019). This bleak development was reflected in the 89-percent year-on-year decline in tourist arrivals in 2021, as the country received only 163,879 foreign visitors from the 1.5 million visitors recorded in 2020. It translated to travel receipts of only US$171 million, 89 percent lower than the US$1.6 billion recorded in 2020.

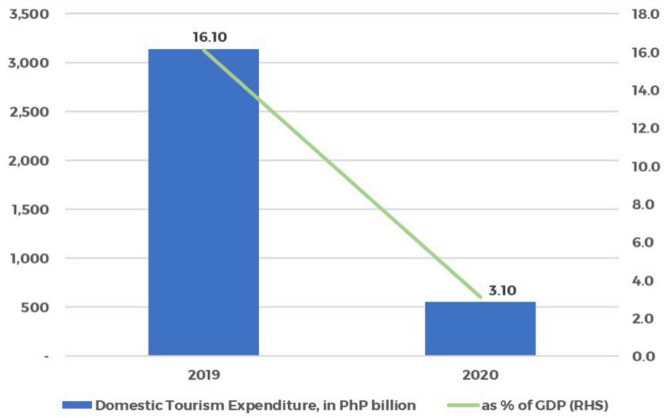
Figure 5. Visitor Arrivals and Receipts, March 2020-December 2021 receipts in US$ million, arrivals in '000



Source: Philippine Statistics Authority

Domestic tourism was also affected by the imposition of mobility restrictions and drop in travelers' confidence for fear of contracting COVID-19. The impact of the pandemic on domestic tourism was reflected in the significant contraction in GVATI in 2020 by 72 percent to P919.2 billion, from the P3.3 trillion GVATI recorded in 2019 **(Figure 6)**.

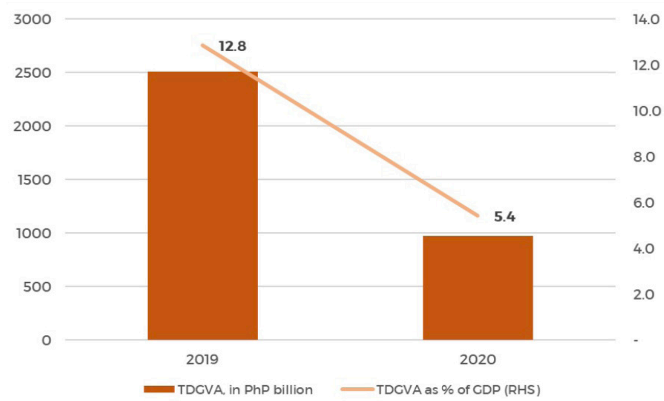
Figure 6. Domestic Tourism Expenditure, 2020 in PhP billion



Source: Philippine Statistics Authority

This rendered a TDGVA of P973.3 billion (5.4 percent of GDP), representing a decline of 61.2 percent from the 2019 TDGVA (12.8 percent of GDP during the year) **(Figure 7)**. In terms of share per tourism industry, transport services accounted for the bulk of the GVATI in 2020 at 39.1 percent (P359.3 billion), followed by entertainment and recreation services at 15.9 percent (P146.3 billion). Domestic tourism expenditure in 2020 also declined to P556.9 billion (3 percent of GDP) or by 82.3 percent from the P3 trillion (16 percent of GDP) domestic tourism expenditure recorded in 2019. The share of domestic tourism expenditure to household expenditure also dropped significantly from 22 percent of total household expenditure in 2019 to 4 percent in 2020.

Figure 7. Tourism Direct Gross Value Added (TDGVA), 2020 in PhP billion



Source: Philippine Statistics Authority

With the closure of many tourism enterprises, employment in the sector declined by 18.1 percent (about 1 million persons) in 2020 to 4.7 million workers from 5.7 million workers employed in 2019. Most of the employment in the sector during the year was still in accommodation/ food and beverage, passenger transport, and miscellaneous. However, the accommodation/ food and passenger segment also had the largest decline in terms of the number of employed persons out of the employment count.

The emergence of new COVID-19 variants led the country to reimpose a series of travel bans in 2021, threatening the recovery of the sector. International visitors coming from the "red list," regardless of vaccination status, were prohibited from entering the country.[9] The National Task Force also introduced a cap on international inbound visitors at 1,500 per day.

Outlook on domestic and international travel

The Department of Tourism (DOT) is forecasting the recovery of the country's domestic travel sector by 2022 at the earliest (Table 1), when demand returns to 90 percent of the 2019 level, and by 2024 at the latest. The DOT is focusing on the recovery of the tourism sector through the promotion of domestic travel, with many overseas source markets still closed.[10] This is consistent with Oxford Economics' projection that domestic visitors are to exceed pre-pandemic levels in 2022. On the other hand, inbound travel is seen to recover in 2024 or 2025 for some individual destinations. Oxford Economics estimates that domestic travel will account for 80 percent of tourists this year, 60 percent higher than pre-pandemic levels.[11]

By 2022, travel receipts are projected to post a robust recovery reaching twice its level in 2021. This is amid the reopening of the Philippine borders and partner countries to vaccinated international tourists. After almost two years, the country is easing its travel restrictions to fully vaccinated international leisure travelers from 157 visa-free countries. Furthermore, starting April 2022, Philippine embassies and consulates will resume visa issuances, and quotas on the arrivals in ports will be lifted altogether.[12] Meanwhile, the Ninoy Aquino International Airport (NAIA) has also

Table 1. DOT Targets under the Reformulated National Tourism Development Plan 2021-2022[12]

	Upside or Mild Scenario		Medium or Harsh Scenario		Downside or Severe Scenario	
	2021	2022	2021	2022	2021	2022
Domestic Trips (in million trips)	75	100	36.5	84.8	14.1	18.8
Revenue from Domestic Trips (in trillion pesos)	2.2	3.0	1.1	2.5	0.4	0.6

Source: Department of Tourism

increased the maximum international inbound passenger capacity to 10,000 per day from only 1,500 per day in 2021[14]. With the country's opening to international travel, foreign tourist arrivals in the country reached 202,700 as of 7 April 2022, mostly from the US, Canada, United Kingdom, South Korea, and Australia.[15]

The DOT projected foreign tourists will reach anywhere between 2 million and 5 million in 2022, considering the global pandemic and the projections by the United Nations World Trade Organization (UNWTO). Moreover, according to the Tourism Congress of the Philippines (TCP), the sector is expected to bounce back in 2023 or 2024, once herd immunity has been reached and confidence to travel in the Philippines has been regained. The projection is in line with the Bureau of Immigration's estimated increase in passenger arrivals to 10,000 to 15,000 daily as the country transitions to the new normal.[16]

Overall, prospects for international travel remain highly dependent on the resurgence of confidence of economies and travelers to engage in tourism-related activities amid the pandemic. This, on the other hand, is hinged largely on the progress of vaccination rollouts globally and the measures undertaken by economies to promote tourism recovery while at the same time ensuring the safety of both international travelers and their citizens.

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9 Philippine News Agency. "PH expands 'red list' to control Omicron threat", dated 28 November 2021.
10 Department of Tourism
11 Philippine Star, Domestic travel recovery seen to start by early 2022, 30 August 2021
12 Business Mirror, Domestic tourism's recovery in 2022 at earliest, 2024 at worst, 18 June 2021
13 Department of Tourism, PH opens doors to all foreign tourists with easing of arrival requirements starting 1 April 2022
14 Philippine News Agency. NAIA to double passenger cap, airplanes at 100% capacity: DOTR", dated 3 March 2022.
15 Department of Tourism, PHL Foreign tourist arrivals breach 200k mark-DOT Chief, 8 April 2022
16 Bureau of Immigration, BI airport manpower in full force as PH approaches first month of open borders

The war in Ukraine poses new risks that hamper the recovery in global travel. The shutdown of Ukrainian and Russian airspace, and the ban on Russian carriers by many European countries could affect intra-European travel and the flights between Europe and US and East Asia due to detoured flights, which translates into longer flights and higher costs.

Sixty-four percent of the UNWTO Panel of Experts expect international arrivals to return to 2019 levels only in 2024 or later, up from 45 percent in the September survey. While 58 percent of the UNWTO panel of experts expect a rebound mostly in 3Q 2022, 42 percent still indicate a potential rebound in 2023. UNWTO scenarios indicate that international tourist arrivals could grow by 30 percent to 78 percent in 2022 compared with 2021 (but still 50 percent to 63 percent below pre-pandemic levels). According to experts, domestic tourism and travel close to home, and open-air activities, nature-based products, and rural tourism are among the major travel trends that will continue to shape tourism in 2022.[17]

The International Air Transport Association (IATA), likewise, perceived a sluggish recovery in the aviation industry due to persistent international travel restrictions, but with an indication of a rebound in consumer confidence that supported domestic travel recovery. In February 2022, actual global RPKs (revenue passenger-kilometers) increased by 115.9 percent year-on-year, faster than the 83.1 percent recorded in the previous month. Nevertheless, the figure was still 45.5 percent below February 2019 levels. Likewise, RPKs in Asia grew by 144 percent in February 2022, an improvement from February 2021, amid the easing of travel restrictions among Asian countries.[18] IATA projects global RPKs to improve by 51 percent in 2022 owing to the sustained pace of vaccination rollout by governments. Tourists' travel expenditures by air in 2022 are estimated at 74 percent of the level before the crisis.

Recovery is seen to come mostly from the Americas and Europe, while Asia-Pacific airlines are still affected by very tight restrictions and relatively slower vaccination rollouts.[19]

The World Bank sees that the phased economic reopening in the country, alongside progress in vaccination, will support a return of market confidence to benefit the services sector, especially transportation, domestic tourism, and wholesale and retail trade. Household consumption is also projected to recover as remittances pick up and employment improves.[20]

Domestic "rediscovery" is expected to continue leading the recovery and normalization of the tourism sector across countries, as about half of global travelers plan to travel for a domestic holiday in the near term. Nevertheless, international travel spending is projected to overtake domestic travel spending in 2022, as more destinations ease restrictions and vaccination rates continue to increase. In particular, international travel spending in the Asia-Pacific is projected to grow by 148.3 percent in 2022. The rise in international travel in 2022 may slow down domestic travel, but the trend of rediscovering domestic destinations is likely to linger in the long term.[21]

Recovery in business travel, on the other hand, remains bleak and uneven amid the varying approaches to travel restrictions by corporates. The hastened digitalization has introduced hybrid work arrangements, which replaced face-to-face or in-person activities, negatively affecting business travel. Business travel could rely instead on domestic markets to stimulate growth and aid recovery. Traveling for business may return faster in Asia than in many European and American markets. In particular, Asia-Pacific business travel spending is projected to rise by 41 percent in 2022. Industries such as manufacturing, pharmaceuticals, and construction are early adopters of a return to business travel.[22]

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17 UNWTO. "Tourism grows 4% in 2021 but remains far below pre-pandemic levels", dated 18 January 2022.
18 International Air Transport Association (IATA), Air Passenger Market Analysis, February 2022
19 International Air Transport Association (IATA), Economic Performance of the Airline Industry
20 World Bank, Philippine Economic Update, 2021 December
21 World Travel and Tourism Council
22 World Travel and Tourism Council, Adapting to Endemic COVID-19: The Outlook for Business Travel

This is consistent with Deloitte's projection that corporate travel will unlikely reach 2019 levels this year, hampered by the lingering health concerns of a new variant of COVID-19 and sustainability concerns, i.e. lesser emissions from less travel.[23] Meanwhile, according to the World Travel and Tourism Council (WTTC), business travel spending declined by 61 percent in 2021, mainly due to delays in vaccine availability and repeated lockdowns of countries, which led to slowed economic activity and recovery.[24]

Measures implemented by the Philippines to support the tourism industry[25]

The recovery of tourism/travel exports and other related activities is deemed largely dependent on the confidence of foreign and domestic travelers to resume traveling, and the removal of travel restrictions. According to the UNWTO, accelerating the pace of vaccination worldwide, working on effective coordination, and communication on the changing travel restrictions while advancing digital tools to track mobility will be critical to rebuilding trust in travel and restarting tourism.[26]

The DOT is revising its National Tourism Development Plan (NTDP) (2022-2027) to reflect pandemic-induced changes in the industry, refocus priorities, adapt to the "new normal," and prepare for similar adversities in the future.[27] The DOT's NTDP is a three-pronged thrust to promote safe, fun, and competitive tourism; pursue sustainable, inclusive, and resilient tourism; and strengthen governance and destination management. The current NTDP supports the development of 20 identified tourism clusters aimed at increasing visitors' length of stay and expenditures.

The DOT likewise updated its Tourism Response and Recovery Plan (TRRP) with the main objective of mitigating the impact of COVID-19 on the tourism industry. The TRRP identifies the "new normal" measures on travel moving forward, with emphasis on sustained business operations, appropriate infrastructure policy, enhanced marketing and market and product development, and formulation of guidelines to ensure the health and safety of its stakeholders.[28] TRRP outlines both fiscal and non-fiscal support measures for tourism-related businesses to help survive the pandemic and capitalize on new opportunities moving forward.

Ramping up vaccination rates for COVID-19 is also key to the rapid recovery in the travel and tourism industry. To revive the tourism industry, the Philippines prioritized vaccination of tourism frontliners, such as employees of hotels and other accommodation establishments. About 92 percent of the country's active tourism worker population have already been inoculated (as of 10 February 2022).[29] This is seen to help the industry gradually bring back jobs and promote tourism confidence.

[23] 2022 Deloitte travel outlook, The winding path to recovery
[24] GBTA and CWT, 2022 Global business travel forecast
[25] See Annex A for select ASEAN countries' measures to support their respective tourism industries
[26] Statement by the UNWTO Secretary-General Zurab Pololikashvili
[27] Philippine Star, DOT prepares NTDP, focuses on domestic tourism. 29 December 2020
[28] Manila Bulletin, DOT bares roadmap for PH tourism recovery, 30 January 2021
[29] Manila Bulletin, DOT: 92% of tourism workers now fully vaccinated vs. COVID-19, 10 February 2022

Green Lanes or Vaccinated Travel Lanes that aim to ease the restrictions to fully vaccinated foreign visitors were also implemented by the country to further support the recovery of the tourism industry. Fully vaccinated travelers from "green" countries are no longer required to undergo quarantine but need to present only a negative RT-PCR test taken within 72 hours from arrival in the country.[30] Starting 10 February 2022, the country further allowed entry of fully vaccinated foreign tourists from 157 countries that have visa-free arrangements with the Philippines, conditional on the submission of a negative RT-PCR test within 48 hours prior to departure from their countries and an acceptable proof of vaccination.[31] This finally eased in April 2022 as the country resumed visa issuances by Philippine embassies and consulates in all countries and removes international arrival quotas.

Meanwhile, the country implements the "Tourism Circuits" to boost domestic tourism, focusing on curated travels such as faith, food, and fitness to match the market preference of travelers, which has clearly evolved to open spaces, nature-based, curated, sensorial, and inclusive products.[32] "Green Corridors" are also being opened to utilize more gateway airports, such as Clark, Davao, Bohol, and Puerto Princesa. These initiatives by the DOT are aimed at marketing more unique experiences to encourage travel activities amid the pandemic, while emphasizing continued observance of government health protocols.

[30] Philippine News Agency, New protocols for fully vaxxed green lane travelers temporary, 14 October 2021

[31] Philippine News Agency, DOT says PH ready to welcome fully vaxxed foreign tourists, 2 February 2022