The Travel Shock

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Abstract

The COVID pandemic has led to a collapse in international travel and tourism. This note explores how the cross-country impact of the COVID-19 pandemic relates to countries’ dependence on these activities as a source of revenue. Specifically, it first documents the size of the shock to revenues from international travel and tourism for the balance of payments, and then turns to the growth implications. Empirical evidence suggests that current account adjustment in 2020 was driven to an important extent by the collapse in revenues and expenditures on international travel as well as by the collapse in oil prices. On the economic growth front, a country’s dependence on tourism is a main determinant of the intensity of the shock to economic activity induced by the COVID pandemic, explaining a larger share of the cross-country impact of the crisis than measures of pandemic intensity.

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# Introduction

The COVID crisis has led to a collapse in international travel, as countries imposed limits on international travel and individuals adopted social distancing measures. According to the World Tourism Organization (UNWTO, 2021a) international tourist arrivals declined globally by [73] percent in 2020, with 1 billion fewer travelers, putting in jeopardy between 100 and 120 million direct tourism jobs. The same source notes that the decline in tourist arrivals during the global financial crisis of 2009 was around 4 percent. Furthermore, this “travel shock” is continuing in 2021, as restrictions to international travel persist—tourist arrivals for January-May 2021 are down a further 65 percent from the same period in 2020, and there is substantial uncertainty on the nature and timing of a tourism recovery.

In this paper we take a first look at the cross-country impact of the international travel shock during 2020. Using the largest possible sample of countries, we show that this impact has been very severe for all tourism-dependent economies. Indeed, our main result is that on a cross-country basis the share of tourism activities in GDP is the single most important predictor of the growth shortfall in 2020 triggered by the COVID-19 crisis, even when compared to a variety of measures of the severity of the pandemic.

Our analysis proceeds in three stages. We first identify the key characteristics of countries with high net revenues from international tourism. We find that those countries are generally small, with tourism activities playing a central role. For instance, for the countries of the Eastern Caribbean Currency Union net revenues from international tourism averaged close to 40 percent of GDP during the period 2015-19. Tourism-dependent economies generally have GDP per capita in the middle-income and high-income range, and they are preponderately net debtors. In contrast, countries with high net spending on international tourism tend to be large, with a relatively modest ratio of such spending to GDP. For instance China, the country with the largest international travel deficit in absolute terms, net spending on international travel averaged 1.7 percent of GDP during 2015-19.

We then document how the travel shock has affected the balance of payments in 2020. We show that the magnitude of the decline in net revenues from international travel for small tourism-dependent economies was staggering (often exceeding 10 percent of GDP). This loss in net exports led to a current account deterioration that, while sizable, was much smaller. Specifically, imports of goods declined (reflecting both a contraction in domestic demand and a decline in tourism inputs such as imported food and energy) and the primary income balance improved with the decline in returns for foreign-owned hotel infrastructure. Overall, we find that the travel shock, together with the big reduction in oil prices, explain an important share of global current account adjustments in 2020.

Finally we present some simple cross-country regressions that relate the COVID-19-related shortfall in growth in 2020 to a variety of controls, including in particular measures of the severity of the pandemic, measures of the sectoral composition of GDP such as the share of value added accounted for by manufacturing and agriculture, and estimates of the pre-crisis share of GDP accounted for by tourism activities. The latter measure is not only statistically very significant, but it also accounts for a sizable fraction of the cross-country variance in the growth decline. This suggests that the sectoral composition of pre-pandemic output has been a crucial factor in explaining the extent of economic stress experienced in 2020.

ADD BRIEF DISCUSSION OF THE LITERATURE

The literature on….

The evidence on the relation between the tourism share of GDP and economic performance is related to a growing literature examining the sectoral impact of the COVIS-19 crisis in contrast with previous recessions (see, for instance, chapter 3 in IMF, 2021)

In terms of methodology, the paper is related to Lane and Milesi-Ferretti (2011, 2012) who focus on economic performance during the global financial crisis, and show that precrisis current account imbalances are a very powerful predictor of economic performance during the GFC.

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# Travel revenues and the balance of payments

In the balance of payments, the category of services most affected by the restrictions on international travel is “travel services”. This category includes both personal travel and business travel. We also examine a second category of services, namely transportation. This category includes passenger travel (for instance, tickets sold to nonresidents by a domestic airline), freight, and other transportation, which includes postal and courier deliveries. For both categories, we focus on the repercussion of the crisis on net external revenues, to take into account the fact that the crisis impact also reduces overseas outlays by domestic residents.

## Pre-crisis

We start by characterizing the relative importance of these categories of services across countries prior to pandemic, before turning to the impact of the “travel shock.” In the presentation of international travel and transportation statistics, we focus on the balance of trade in those services, rather than gross export revenues, to take into account the fact that the international travel restrictions imposed in 2020 may have pushed domestic travelers that normally vacation overseas to remain in their home country, thus reducing the impact on activity of the loss in external revenues.

Global revenues and expenditures on international travel services were around $1.45 trillion in 2019, having grown some 5 percent per year in nominal terms since the start of that decade. They represented some 23 percent of total revenues and expenditures from international trade in services. For international transportation services global revenues and expenditures were around $1 trillion dollars in 2019 (some 17 percent of total revenues and expenditures on services).

For tourism-dependent countries, the support to the balance of payments coming from travel services is very substantial. Table 1 provides statistics for those economies in which the surplus from international travel services exceeded 5 percent of GDP on average during the period 2015-19. For instance, in Croatia over 2015-19 the average surplus in those service categories exceeded 15 percent of GDP, while it was above 8 percent of GDP in the Dominican Republic and Thailand, 7 percent of GDP in Greece, and 5 percent in Portugal. But the majority of economies with large net external revenues from travel and tourism consist of small islands in the Caribbean, the Pacific, and the Indian Ocean. In our sample, 20 of the 37 economies with net revenues from travel and tourism exceeding 5 percent of GDP on average during 2015-19 had GDP in 2019 below US$10 billion, and 24 of them had population below 1 million. Among those economies, median net revenues from foreign tourism exceeded 26 percent of GDP, highlighting the central role played by the sector in economic activity. The most extreme example of the importance of net external revenues from travel and tourism is Macau SAR, where net revenues were around 68 percent of GDP during 2015-19. Even in absolute terms. Macau’s net revenues from tourism were the fourth highest in the world, after the U.S., Spain, and Thailand (Table 2, panel 1).

In contrast, for the countries that are net importers of travel and tourism services, the balance is generally much smaller as a share of GDP. In absolute terms, the largest importer of travel services is China (over $200 billion or 1.7 percent of GDP on average during 2015-19), followed by Germany and Russia (Table 2, panel 2).

Table 3 provides a breakdown of the current account balance for tourism-dependent economies which includes the merchandise income balance, the balance on services net of international travel, the primary income balance (which mostly reflects investment income), and the secondary income balance (mostly capturing workers’ remittances). From the perspective of their external accounts during the pre-COVID period, countries relying heavily on tourism revenues had sizable current account deficits, very large deficits in their merchandise trade balance (including imports of oil), (Table 3), as well as a negative primary income balance, being generally large net debtors in terms of their international investment position (Table 4).[[1]](#footnote-1) In contrast, most tourism-dependent economies receive positive secondary income flows. Table 4 also shows that while their GDP per capita in 2019 spanned a wide range, tourism-dependent countries are mostly in the middle income and high income category.

A second category of services affected by the “travel shock” is transportation. For this category, the crisis took a heavy toll on passenger transportation (particularly airline revenues). In relation to GDP, these revenues are particularly important for countries hosting important international airlines such as Ethiopia, Iceland, Fiji, Panama, Qatar, Turkey, and the United Arab Emirates. Revenues from freight transportation (air, shipping, road, and rail) were much more resilient. Unfortunately, however, the breakdown between the different categories of transportation services is available for only a subset of countries, complicating the task of separating out passenger transportation for a global analysis. For the countries providing a breakdown between different transportation categories, passenger transportation accounts for about ¼ of the total, with freight accounting for about half and the “other” category for the remaining quarter. The number of countries for which net revenues from transportation services is high is also much more limited than for travel services, and includes in particular Panama, Cyprus, and Iceland, which also have high travel revenues (Table 5).

## The Crisis

As the pandemic spread beyond China’s borders in early 2020, countries started to impose restrictions on international travel. As a result, nominal revenues from travel and tourism in the first quarter of 2020 were about 25 percent lower than during the corresponding period in 2019. In the second quarter revenues from international travel collapsed—they were more than 80 percent below their levels a year before. Revenues recovered some ground over the summer, as many economies began to partially lift the restrictions imposed during preceding months. However, they plummeted again in the last quarter of the year as the pandemic intensified again, leaving revenues from international travel and tourism in 2020 over 60 percent below their nominal 2019 US dollar levels.

The hit to countries with heavy reliance on international tourism was unprecedented, with a median decline in net revenues from international travel in 2020 exceeding 10 percent of GDP for our sample of tourism-dependent economies. As a result of this shock, the current account balance of these economies deteriorated significantly (a median worsening of close to 5 percent of GDP), with part of the decline in international travel revenues offset by other components of the current account balance, as shown in Figure x. Specifically, the balance on goods showed a median improvement of about 2 percent of GDP, reflecting the impact of lower oil prices (tourism-dependent economies being overwhelmingly oil importers), lower imports of inputs in the tourism business, such as food, as well as a sizable decline in domestic demand. The primary income balance, which captures investment income, also improved, as revenues on foreign-owned tourism infrastructure declined. The secondary income balance, which includes workers’ remittances, also showed some improvement, as nominal remittance revenues were resilient while nominal GDP generally declined. In relative terms, the decline in revenues from tourism was slightly less severe in countries where such revenues accrue primarily during the Northern Hemisphere winter months (such as Australia, Austria, Brazil, New Zealand, Uruguay), and hence first-quarter revenues are a larger share of the annual total.

The hit of the crisis on net revenues from transportation services was more modest. While revenues from passenger transportation declined by over 60 percent in nominal US dollar terms in 2020 for the countries providing such data, other transportation categories, such as shipping and road transportation, were much more resilient: the overall decline in freight revenues was around 2 percent, and the overall, the decline in nominal revenues and expenditures from transportation services in 2020 was around 15 percent.

The decline in international travel, together with much-reduced mobility within countries, led to a dramatic decline in oil demand and oil prices in 2020, with attendant implications for oil balances, already highlighted above for tourism-dependent oil importers. In Table 6 we investigate the extent to which the dependence on travel revenues and oil pre-COVID can explain current account adjustment in 2020, defined as the difference between the current account in 2020 and its 2015-19 average, both expressed in percent of GDP. With the exception of column (1) we exclude Kuwait, a big outlier, from the regressions. [[2]](#footnote-2) We find that, as during the 2008-2009 financial crisis, there has been a tendency for external current account balances to shrink (see the negative sign on the 2015-19 current account balance). In addition, both the pre-COVID travel balance and the oil balance are statistically and economically significant, including when we split the sample between advanced economies and emerging and developing economies (columns 3-4).

One notable difference between these two groups lies in the size of the coefficient on the pre-COVID travel balance, which is much higher for advanced economies. One possible explanation of this finding is that in advanced economies the import content of net international travel revenues is lower than in emerging and developing economies: small island economies are more likely to exhibit higher dependence on imported food, energy, and foreign-owned hotel infrastructure. As shown in columns (4) and (5) the statistical and economic significance of the travel balance is driven by countries with positive international travel balances, which—as highlighted above—exhibit much more significant cross-country variation. In contrast, dependence on oil explains subsequent current account adjustment for both oil exporters and oil importers (results available from the author).

## Forecasts

Brief mention of developments in 2021, forecasts for tourism recovery.

# Growth and tourism dependence

Finally, in this section we explore the extent to which the dependence of a country on tourism revenues helps predict the size of the economic contraction caused by the COVID crisis. The measure of crisis intensity we use is the difference between GDP growth in 2020, taken from the April 2021 World Economic Outlook (IMF, 2021) and the pre-pandemic growth forecast for the same year, taken from the January 2021 World Economic Outlook update (IMF, 2020a). Using the difference in performance compared to forecasts is important in order to control for differences in trend growth across countries. We rely on the World Economic Outlook given the global coverage of their forecasts, which is essential considering that many of the most affected economies are very small and generally not covered by other economic forecasts.

## The Tourism Data

Our data on tourism dependence come from the World Travel and Tourism Council (WTTC), and is disseminated by the World Bank. The main variables used in the analysis are the direct share of travel and tourism in GDP (which is an estimate of the value added accounted for by the tourism sector) and the total share (which also takes into account linkages between travel and tourism and other sectors). The methodology used to construct these variables is explained in detail in WTTC/Oxford Economics (2020).

In summary, the direct share measure is estimated by first constructing expenditure measures directed to sectors producing travel and tourism services (such as accommodation, transportation, entertainment, and attractions), and subsequently using input-output matrices to subtract domestic purchases and imported inputs by these sectors. The more comprehensive “total” measure also includes travel and tourism investment spending, government “collective” spending also benefiting the tourism industry, and domestic (non-imported) supply chain purchases of goods and services by the sectors producing travel and tourism services. The construction of the data makes use, where possible, of the so-called Tourism Satellite Accounts (TSA), which…..

From the WTTC text:

The direct contribution of Travel & Tourism to GDP reflects the:

◼ ‘Internal’ spending on Travel & Tourism - total spending within a particular country on Travel & Tourism by residents and non-residents for business and leisure purposes.

◼ As well as government 'individual' spending - spending by government on Travel & Tourism services directly linked to visitors, such as cultural (e.g. museums) or recreational visitors (e.g. national parks).

◼ The direct contribution of Travel & Tourism to GDP is calculated to be consistent with the output of tourism-characteristic sectors such as hotels, airlines, airports, travel agents and leisure & recreation services that deal directly with tourists.

◼ The direct contribution of Travel & Tourism to GDP is calculated from total ‘internal’ spending by netting out the domestic and imported purchases made by the different tourism sectors. This is consistent with the definition of Travel & Tourism GDP, specified in TSA: RMF (2008). The input-output methodology improvements implemented in the 2020 EIR help to more accurately estimate domestic and imported purchases.

Table 7 provides some summary statistics on the two tourism-related variables.[[3]](#footnote-3) The median direct share of GDP is around 3.5 percent for both advanced and emerging and developing economies, while the total share is notably higher, with a median around 9.5 percent of GDP. Among advanced economies, 10 have a direct share of tourism in GDP exceeding 5 percent: Austria, Cyprus, Greece, Iceland, Italy, Macao, Malta, New Zealand, Portugal, and Spain. For emerging and developing economies, there are 42 with a share of tourism exceeding 5 percent, and 17 with a share exceeding 10 percent—the latter being all countries listed in Table 1 as having a large international travel surplus. Indeed, the measures of the share of GDP accounted for by tourism-related activities are strongly correlated with the average surplus on the international travel balance (the correlation is 0.85).

## Growth regressions

We now examine the extent to which the dependence of economies on tourism can help explain growth performance during 2020. To control for underlying trends in growth and to focus squarely on the impact of the COVID pandemic, we use as dependent variable the “growth surprise” in 2020 relative to the January 2020 growth forecast of the World Economic Outlook (which given its timing did not incorporate any consequence of the COVID pandemic). We exclude from the sample as well as from subsequent regressions a few countries affected by economic stress and political strife, where growth performance can be very volatile and unpredictable. Those include Lebanon, Libya, Sudan, Venezuela, and Yemen. In addition we exclude Guyana, a massive outlier, where both the growth forecast for 2020 (85 percent) and the growth outcome (43 percent) are related to the uncertain timing of new oil-producing activity.

In addition to the dependence on travel and tourism, we use a number of other potential explanatory variables. Two relate directly to the intensity of the pandemic: the number of recorded cases in 2020 (as a share of total population) and the number of recorded deaths attributed to COVID-19 (also scaled by total population size). A third variable, the stringency of lockdown measures, relates instead to the government response to the pandemic. While stringency is clearly correlated with the severity of the pandemic, the objective here is only to assess the extent to which government restrictions correlate with a decline in economic activity for a given severity of the pandemic. Among the other explanatory variables we consider are the level of development (potentially a proxy for quality of health care), population size, and variables related to the composition of output such as the share of manufacturing and agriculture in value added.

Before turning to regression analysis, Figure 3 shows a scatter plot of the 2020 growth surprise and the total share of tourism in GDP. The correlation is -0.72. Excluding the three most extreme observations (Macao, Maldives, and Aruba, which are anyway excluded from most regressions because they lack observations for one or more of the explanatory variables) reduces the correlation to -0.6. Even after excluding all countries with a total share of tourism exceeding 20 percent the correlation is still -0.3.

The first column of table 8 shows that by themselves the measures of severity of the pandemic and stringency explain a very small fraction of the cross-country variance in growth surprises, with only stringency reaching statistical significance. However, as shown in column (2), adding the share of tourism in GDP increases the explanatory power dramatically, with the variables now explaining about half of the cross-country heterogeneity in growth performance. It is notable that once the share of tourism is included the severity of the pandemic, as measured by the number of reported COVID-related deaths, becomes statistically significant. In column (3) we add GDP per capita and population in 2019 (both in log form) to the set of explanatory variables: only the latter variable is borderline significant, suggesting that countries with larger populations experienced less severe growth deviations.

Column (4) adds two additional variables relate to the sectoral composition of economic activity: the share of agriculture in total value added and the share of manufacturing in value added (both calculated as averages over the period 2014-19). Both variables are positively associated with 2020 growth outcomes relative to pre-crisis forecasts, providing further evidence on the importance of the sectoral composition of output in explaining the cross-country impact of the COVID crisis. [[4]](#footnote-4)

Table 9 looks at the robustness of results using different sub-samples as well as different measures of the dependence on tourism. Column (1) replicates the baseline regression presented in column (4), while columns (2) and (3) provide results using the sample of advanced economies and emerging and developing economies respectively. It is interesting to note that for advanced economies the severity of the pandemic, captured by the number of deaths scaled by population, is statistically significant and precisely estimated, while the stringency index is not significant after controlling for deaths. In contrast, for emerging and developing economies, where arguably the measurement of cases and deaths is less precise, the coefficient on deaths is less precisely estimated and is not statistically significant, while the stringency index is highly significant.

Columns (4)-(7) show the robustness of results to the use of alternative measures of the importance of tourism, as well as sample size. Columns (4)-(6) uses the direct share in GDP. In column (4) the coefficients and fit of the regressions are virtually unchanged, the only difference being the size of the tourism coefficient, which not surprisingly is much higher for the direct share of tourism (which is some 37 percent of the total share). Column (5) excludes economies with a direct share of tourism above 10 percent of GDP. Results are robust, but not surprisingly the fit of the regression diminishes, as the most affected countries are excluded. Column (6) excludes all economies with a direct share of tourism above 5 percent of GDP (which, as mentioned earlier in this section, will exclude economies such as Italy and Spain, for a total of 39 observations). In this case the coefficient on tourism drops in magnitude and is no longer statistically significant. Finally, Column (7) shows that the net international travel revenues also provide strong explanatory power if the GDP share of tourism is excluded, but not surprisingly the latter variable—which also takes into account purely domestic tourism-related activities--raises the fit of the regression.

DISCUSS THE IMPORTANCE OF PANDEMIC-RELATED VARIABLES VS OTHER VARIABLES (DEPENDENCE ON TRAVEL, OIL…). REFER TO IMPORTANCE OF THE SECTORAL COMPOSITION OF OUTPUT – CITE WEO CHAPTERS.

# Concluding Remarks

We have shown how the unprecedented “travel shock” triggered by the COVID pandemic had sizable repercussions on growth and the balance of payments in countries relying on tourism.

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Figure 3. Growth in 2020 and tourism share

Figure 1.

Figure 2. Current account adjustment in 2020

Chart

Description automatically generated

Figure 3. Tourism dependence and growth performance in 2020

Chart, scatter chart

Description automatically generated

Table 5. Current account adjustment, 2020 vs 2015-19

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  |  |  |  |  |  |
|  | (1) | | (2) | (3) | (4) | (5) | (6) |
|  | All | | All ex KWT | Adv Ec | EM ex KWT | BTV>0 | BTV<0 |
|  |  | |  |  |  |  |  |
| Current account balance | -0.162\*\*\* | | -0.186\*\*\* | -0.178\*\* | -0.170\*\* | -0.132 | -0.270\*\*\* |
| (pct of GDP, 2015-19) | (-2.67) | | (-3.07) | (-2.30) | (-2.22) | (-1.62) | (-3.24) |
|  |  | |  |  |  |  |  |
| Oil balance | -0.125 | | -0.229\*\*\* | -0.532\*\*\* | -0.231\*\*\* | -0.265\*\*\* | -0.223\*\*\* |
| (pct of GDP, 2015-19) | (-1.33) | | (-8.16) | (-4.60) | (-7.16) | (-3.39) | (-8.00) |
|  |  | |  |  |  |  |  |
| Net rev. from int. travel | -0.335\*\*\* | | -0.340\*\*\* | -0.961\*\*\* | -0.332\*\*\* | -0.328\*\*\* | -0.109 |
| (pct of GDP, 2015-19) | (-5.76) | | (-6.02) | (-5.66) | (-5.81) | (-5.32) | (-0.51) |
|  |  | |  |  |  |  |  |
| Constant | 1.123\*\*\* | | 0.876\*\* | 0.792 | 1.052\*\* | 0.809\* | 1.287\*\* |
|  | (2.70) | | (2.52) | (1.60) | (2.17) | (1.74) | (2.10) |
|  |  | |  |  |  |  |  |
| Observations | 130 | | 129 | 36 | 93 | 87 | 42 |
| R-squared | 0.31 | | 0.41 | 0.51 | 0.43 | 0.38 | 0.53 |
|  | |  |  |  |  |  |  |

Note: dependent variable is the difference between the current account balance in 2020 and its 2015-19 average, both scaled by GDP. t statistics in parentheses, robust standard errors. \* p<0.10, \*\* p<0.05, \*\*\* p<0.01.

Table 6. Share of tourism in GDP: stylized facts

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Obs. | Min | 25th perc. | Median | 75th perc. | Max | Mean | Std. dev. |
|  |  |  |  |  |  |  |  |  |  |
| Direct share | All countries | 166 | 0.6 | 2.4 | 3.6 | 5.8 | 38.8 | 5.2 | 5.3 |
| Direct share | Adv. Ec. | 36 | 1.6 | 2.2 | 3.5 | 5.4 | 28.1 | 4.6 | 4.7 |
| Direct share | Emg. and Dev. Ec. | 130 | 0.6 | 2.6 | 3.6 | 6.1 | 38.8 | 5.4 | 5.5 |
|  |  |  |  |  |  |  |  |  |  |
| Total share | All countries | 166 | 1.8 | 2.9 | 9.6 | 16.0 | 87.5 | 14.1 | 13.4 |
| Total share | Adv. Ec. | 36 | 4.4 | 6.7 | 9.4 | 15.1 | 59.0 | 12.8 | 10.2 |
| Total share | Emg. and Dev. Ec. | 130 | 1.8 | 6.6 | 9.7 | 16.1 | 87.5 | 14.5 | 14.2 |
|  |  |  |  |  |  |  |  |  |  |

Table 7. Growth regressions (I)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) |
|  | All | All | All | All |
|  |  |  |  |  |
| COVID cases in 2020 (per 1000 popul.) | -0.0236 | 0.0120 | 0.0203 | 0.0219 |
|  | (-0.60) | (0.58) | (0.81) | (0.82) |
|  |  |  |  |  |
| COVID deaths in 2020 (per 1000 popul.) | -0.602 | -2.133\*\* | -2.700\*\*\* | -2.645\*\*\* |
|  | (-0.42) | (-2.41) | (-2.97) | (-2.63) |
|  |  |  |  |  |
| Oxford stringency index (average 2020) | -0.0736\*\* | -0.102\*\*\* | -0.121\*\*\* | -0.109\*\*\* |
|  | (-2.37) | (-4.27) | (-4.70) | (-4.14) |
|  |  |  |  |  |
| Tourism activity (total share of GDP) |  | -0.270\*\*\* | -0.239\*\*\* | -0.217\*\*\* |
|  |  | (-12.88) | (-8.97) | (-5.97) |
|  |  |  |  |  |
| log GDP per capita |  |  | 0.146 | 0.548 |
|  |  |  | (0.69) | (1.56) |
|  |  |  |  |  |
| log population |  |  | 0.427\* | 0.304 |
|  |  |  | (1.90) | (1.28) |
|  |  |  |  |  |
| VA share of agriculture (2014-19) |  |  |  | 0.0905\* |
|  |  |  |  | (1.69) |
|  |  |  |  |  |
| VA share of manufacturing (avg 2014-19) |  |  |  | 0.104\*\* |
|  |  |  |  | (2.10) |
|  |  |  |  |  |
| Constant | -3.375\*\* | 1.395 | -0.298 | -6.599\* |
|  | (-2.10) | (1.16) | (-0.16) | (-1.66) |
|  |  |  |  |  |
| Observations | 166 | 153 | 153 | 148 |
| R2 | 0.07 | 0.51 | 0.53 | 0.48 |

Note: Dependent variable is GDP growth in 2020 minus the pre-COVID growth forecast (from WEO, 2020).

t statistics in parentheses, robust standard errors. \* p<0.10, \*\* p<0.05, \*\*\* p<0.01.

Table 8. Growth Regressions (II)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|  | All | AE | EM | All | Dir. Tour<10 | Dir. Tour<5 | All |
| COVID cases in 2020 | 0.0219 | 0.009 | 0.026 | 0.023 | 0.023 | 0.036 | 0.053\*\* |
| (per 1000 popul.) | (0.82) | (0.37) | (0.63) | (0.87) | (0.86) | (1.39) | (2.09) |
|  |  |  |  |  |  |  |  |
| COVID deaths in 2020 | -2.645\*\*\* | -2.785\*\* | -2.204 | -2.55\*\* | -2.66\*\*\* | -2.80\*\* | -3.38\*\*\* |
| (per 1000 popul.) | (-2.63) | (-2.70) | (-1.52) | (-2.60) | (-2.68) | (-2.40) | (-3.58) |
| Oxford stringency index | -0.11\*\*\* | 0.018 | -0.11\*\*\* | -0.11\*\*\* | -0.11\*\*\* | -0.11\*\*\* | -0.09\*\*\* |
| (average 2020) | (-4.14) | (0.48) | (-3.71) | (-4.19) | (-4.15) | (-4.68) | (-3.16) |
|  |  |  |  |  |  |  |  |
| Tourism activity | -0.22\*\*\* | -0.29\*\*\* | -0.20\*\*\* |  |  |  |  |
| (total share of GDP) | (-5.97) | (-6.85) | (-4.83) |  |  |  |  |
|  |  |  |  |  |  |  |  |
| log GDP per capita | 0.548 | 2.577\*\*\* | -0.193 | 0.435 | 0.367 | 0.363 | 0.610\* |
|  | (1.56) | (4.85) | (-0.41) | (1.26) | (1.06) | (1.00) | (1.78) |
|  |  |  |  |  |  |  |  |
| log population | 0.304 | -0.435\* | 0.379 | 0.363 | 0.322 | 0.513\*\* | 0.292 |
|  | (1.28) | (-1.75) | (1.32) | (1.57) | (1.35) | (1.99) | (1.44) |
|  |  |  |  |  |  |  |  |
| VA share of agriculture (2014-19) | 0.0905\* | 0.645\*\* | 0.0555 | 0.0909\* | 0.0869 | 0.0709 | 0.147\*\*\* |
|  | (1.69) | (2.73) | (1.06) | (1.68) | (1.57) | (1.47) | (2.66) |
|  |  |  |  |  |  |  |  |
| VA share of manufacturing | 0.104\*\* | 0.091 | 0.128\*\* | 0.113\*\* | 0.119\*\* | 0.13\*\* | 0.17\*\*\* |
| (avg 2014-19) | (2.10) | (1.66) | (2.29) | (2.35) | (2.42) | (2.62) | (3.35) |
|  |  |  |  |  |  |  |  |
| Tourism activity |  |  |  | -0.54\*\*\* | -0.53\*\*\* | -0.32 |  |
| (direct share of GDP) |  |  |  | (-6.32) | (-3.08) | (-1.26) |  |
|  | |  |  |  |  |  |  |
| Net revenues from int. travel | |  |  |  |  |  | -0.237\*\*\* |
| pct of GDP, 2015-19 |  |  |  |  |  |  | (-3.88) |
|  |  |  |  |  |  |  |  |
| Constant | -6.6\* | -31.8\*\*\* | -1.16 | -5.95 | -5.17 | -6.44 | -12.0\*\*\* |
|  | (-1.66) | (-4.54) | (-0.26) | (-1.47) | (-1.30) | (-1.64) | (-2.97) |
|  |  |  |  |  |  |  |  |
| Observations | 148 | 35 | 113 | 148 | 137 | 109 | 155 |
| R2 | 0.48 | 0.77 | 0.49 | 0.48 | 0.34 | 0.32 | 0.43 |

Note: Dependent variable is GDP growth in 2020 minus the pre-COVID growth forecast (from WEO, 2020).

t statistics in parentheses, robust standard errors. \* p<0.10, \*\* p<0.05, \*\*\* p<0.01.

1. The only net creditor countries among those with net international travel revenues above 5 percent of GDP are financial centers (Bahrain, Macau, Malta, Mauritius) and Iceland. [↑](#footnote-ref-1)
2. Kuwait’s reported current account surplus increased in 2020 despite a massive worsening of the oil balance, because of a $10 billion upward jump in reported investment income. [↑](#footnote-ref-2)
3. We exclude from the sample a few economies affected by economic stress and political strife, as discussed at the beginning of the next sub-section. [↑](#footnote-ref-3)
4. The drop in the overall explanatory power of the regression is due to a sample composition effect—the sectoral composition of output is not available for a few island economies that contribute to the fit of the overall regression. Using the same sample for the regressions in columns (3) and (4) reduces the fit of the column (3) specification to 0.45, without altering the statistical and economic significance of the coefficients. [↑](#footnote-ref-4)