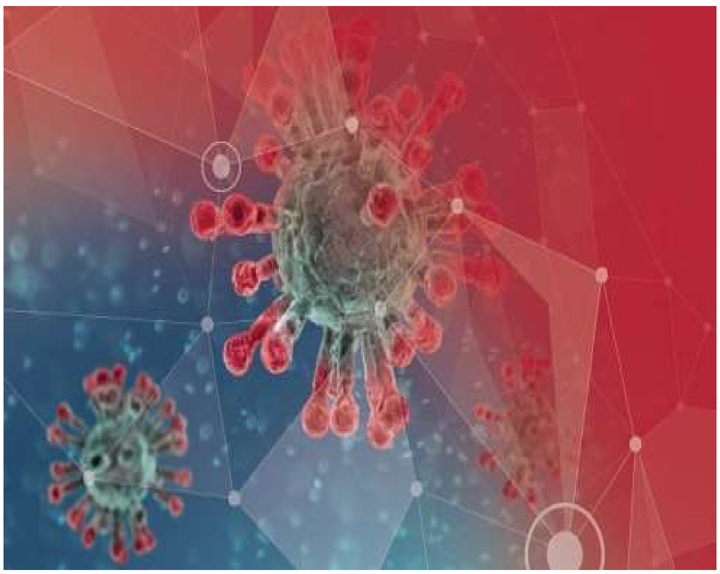

IMPACT OF COVID-19 ON GLOBAL ECONOMY | TOURISM & HOSPITALITY

18 May 2020

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HOW COVID-19 HAS AFFECTED THE GLOBAL ECONOMY

Amid the coronavirus pandemic, several countries across the world resorted to lockdowns to "flatten the curve" of the infection. These lockdowns meant confining millions of citizens to their homes, shutting down businesses and ceasing almost all economic activity. According to the International Monetary Fund (IMF), the global economy is expected to shrink by over 3 per cent in 2020 – the steepest slowdown since the Great Depression of the 1930s.

Now, as some countries lift restrictions and gradually restart their economies, here's a look at how the pandemic has affected them and how they have coped.

How hard has the economy been hit?

The pandemic has pushed the global economy into a recession, which means the economy starts shrinking and growth stops. In the US, Covid-19-related disruptions have led to millions filing for unemployment benefits. In April alone, the figures were at 20.5 million, and are expected to rise as the impact of the pandemic on the US labour market worsens. As per a Reuters report, since March 21, more than 36 million have filed for unemployment benefits, which is almost a quarter of the working-age population.

Further, an early analysis by IMF reveals that the manufacturing output in many countries has gone done, which reflects a fall in external demand and growing expectations of a fall in domestic demand.

Coronavirus (COVID-19) and global growth

The IMF's estimate of the global economy growing at -3 per cent in 2020 is an outcome "far worse" than the 2009 global financial crises. Economies such as the US, Japan, the UK, Germany, France, Italy and Spain are expected to contract this year by 5.9, 5.2, 6.5, 7, 7.2, 9.1 and 8 per cent respectively.

Advanced economies have been hit harder, and together they are expected to grow by -6 per cent in 2020. Emerging markets and developing economies are expected to contract by -1 per cent. If China is excluded from this pool of countries, the growth rate for 2020 is expected to be -2.2 percent.

China's GDP dropped by 36.6 per cent in the first quarter of 2020, while South Korea's output fell by 5.5 per cent, since the country didn't impose a lockdown but followed a strategy of aggressive testing, contact tracing and quarantining.

In Europe, the GDPs of France, Spain and Italy fell by 21.3, 19.2 and 17.5 per cent respectively.

Oil and natural gas | Due to the fall in travel, global industrial activity has been affected. Oil prices fell further in March as the transportation section, which accounts for 60 per cent of the oil demand, was hit due to several countries imposing lockdowns.

Not only oil, early this year in China, due to Covid-19-related containment measures, the demand for natural gas fell, as a result of which many Chinese LNG buyers halted their imports as storage tanks filled.

Industrial Metals | Due to lockdowns in China, followed by in the US and Europe, the demand for industrial metals reduced as factories shut down. As per IMF, China accounts for roughly half of the global demand for industrial metals.

Food and beverages | IMF projects a decrease in food prices by 2.6 per cent in 2020, caused by supply chain disruptions, border delays, food security concerns in regions affected by Covid-19 and export restrictions.

How have countries coped?

According to an assessment by the World Economic Forum (WEF), supporting SMEs and larger businesses is crucial for maintaining employment and financial stability.

Many advanced economies in the world have rolled out support packages. While India's economic stimulus package is 10 per cent of its GDP, Japan's is 21.1 per cent, followed by the US (13 per cent), Sweden (12 per cent), Germany (10.7 per cent), France (9.3 per cent), Spain (7.3 per cent) and Italy (5.7 per cent).

However, the WEF notes, "…there is concern that the size of packages may prove insufficient for the duration of the crisis; that disbursement may be slower than is needed; that not all firms in need would be targeted; and that such programmes may be overly reliant on debt financing."

In Asia, countries including India, China, Indonesia, Japan, Singapore and South Korea account for about 85 per cent of all the Covid-19 cases on the continent.

South Korea stands out, since business and economic activities were not completely stopped and therefore, their economy was not severely affected.

China recently lifted its lockdown and has since then been gradually reopening its economy without an aggressive second wave of infections so far.

Further, even as economic activity resumes gradually, the situation will take time to normalize, as consumer behaviours change as a result of continued social distancing and uncertainty about how the pandemic will evolve.

For instance, in its World Economic Outlook report for 2020, the IMF mentions that firms may start hiring more people and expanding their payroll only slowly, as they may not be clear about the demand for their output.

Therefore, along with clear and effective communication, broad monetary and fiscal stimuli will be required to be coordinated on an international scale for maximum impact, and, "would be most effective to boost spending in the recovery phase."

Scenarios

Four potential scenarios for the outcome of the coronavirus crisis have been analyzed. In all cases, the global GDP growth rate for 2020 is expected to drop, by -1.5% in the most optimistic scenario where the lockdown is phased out over summer, to -11.5% in a scenario where the return to normalcy would happen only in 2023.

Lockdown	Scenario 1 'Base'	Scenario 2 Winter 'Return'	Scenario 3 'Optimistic'	Scenario 4 'Pessimistic'
Assumptions				
Social distancing	Remain for 6 to 12 months	Remain 12 months	Phased out over summer	Remain for 12 to 18 months
Global travel	Restricted	Restricted	Close to normal	Restricted
Winter Outbreak	Manageable	Not manageable	Less likely	Not manageable
Business & trade	Home working remains	Home working remains	Back to normal	Home working remains
Possible health drivers				
Testing	Widespread testing	Widespread testing in some countries	Widespread testing in some countries	Countries cannot test all suspected cases
Immunity	Better contact tracing	Test show small % of population are immune	Large % of population are immune	Limited visibility on who is immune
Warmer weather	Case growth drops	Case growth drops but returns in winter	Case growth drops greatly	Growth stops slightly and returns in winter
Vaccine	Progress with 2021 target	Progress with 2021 target	Developed and produced sooner	Unavailable to masses for 12 to 18 months
Care capacity	Critical care surge capacity increases	Capacity increases but not enough for second wave	Capacity increase not required as large % of population are immune	Critical care capacity not sufficient
Outcomes				
Global Oil Demand	Decline of 90,000 barrels per day	Decline of 175,000 barrels per day	Demand grows by 480,000 barrels per day	Decline of 730,000 barrels per day
GDP Growth 2020(a)	(3.8%)	(5.9%)	(1.2%)	(11.5%)
Back to normal by	2022	2022	2021	2023
Economic Recovery	'U' shaped	'W' shaped	'V' shaped	'L' shaped

SPECIAL FOCUS ON THE IMPACT OF COVID-19 ON GLOBAL TOURISM

Executive Summary

The world is facing an unprecedented global health, social and economic emergency with the COVID-19 pandemic.

Travel and tourism is among the most affected sectors with airplanes on the ground, hotels closed and travel restrictions put in place in virtually all countries around the world.

In an unprecedented blow to the tourism sector, the COVID-19 pandemic has cut international tourist arrivals in the first quarter of 2020 to a fraction of what they were a year ago.

Available data points to a double-digit decrease of 22% in Q1 2020, with arrivals in March down by 57%. This translates into a loss of 67 million international arrivals and about USD 80 billion in receipts.

Prospects for the year have been downgraded several times since the outbreak in view of the high level of uncertainty.

Current scenarios point to declines of 58% to 78% in international tourist arrivals for the year, depending on the speed of the containment and the duration of travel restrictions and shutdown of borders, although the outlook remains highly uncertain (the scenarios are not forecasts and should not be interpreted as such).

The scenarios reflect three possible patterns of monthly change in arrivals from April to December 2020 supposing that travel restrictions start to be lifted and national borders opened in early July (Scenario 1: -58%), in early September (Scenario 2: -70%) or in early December (Scenario 3: -78%).

These scenarios would put 100 to 120 million direct tourism jobs at risk.

This is by far the worst result in the historical series of international tourism since 1950 and would put an abrupt end to a 10-year period of sustained growth since the 2009 financial crisis.

Sentiment expressed by the UNWTO Panel of Experts points to a start of the recovery of international demand mostly in 2021. According to Panel Experts from around the world, domestic demand would recover faster than international demand.

Considerable challenges remain ahead, starting with the unknown duration of the pandemic and travel restrictions, in a context of global economic recession. Countries around the world are implementing a wide range of measures to mitigate the impact of the COVID-19 outbreak and to stimulate the recovery of the tourism sector

The impact of COVID-19 on international tourism

Travel Restrictions

- According to UNWTO's Report on COVID – 19 Related Travel Restrictions, as of 20 April, 100% of all worldwide destinations have introduced travel restrictions in response to the pandemic.
- 97 destinations (45%) have totally or partially closed their borders for tourists.
- 65 destinations (30%) have suspended totally or partially international flights.
- 39 destinations (18%) are implementing the closing of borders in a more differentiated manner by banning the entry for passengers from specific countries of origin".

International Tourist Arrivals

Available data points to a double-digit decrease of 22% in international tourist arrivals in Q1 2020, with arrivals in the month of March down by 57% following the start of the lockdown in many countries, widespread travel restrictions and the shutdown of airports and national borders.

This represents a loss of 67 million international arrivals in the first quarter of 2020 compared to the same period of last year.

By regions, Asia and the Pacific, the first region to suffer the impact of COVID-19, saw a 35% decrease in arrivals in Q1 2020. The second-hardest hit was Europe with a 19% decline, followed by the Americas (-15%), Africa (-12%) and the Middle East (-11%).

The impact of COVID-19 on Global Tourism in Q1, 2020

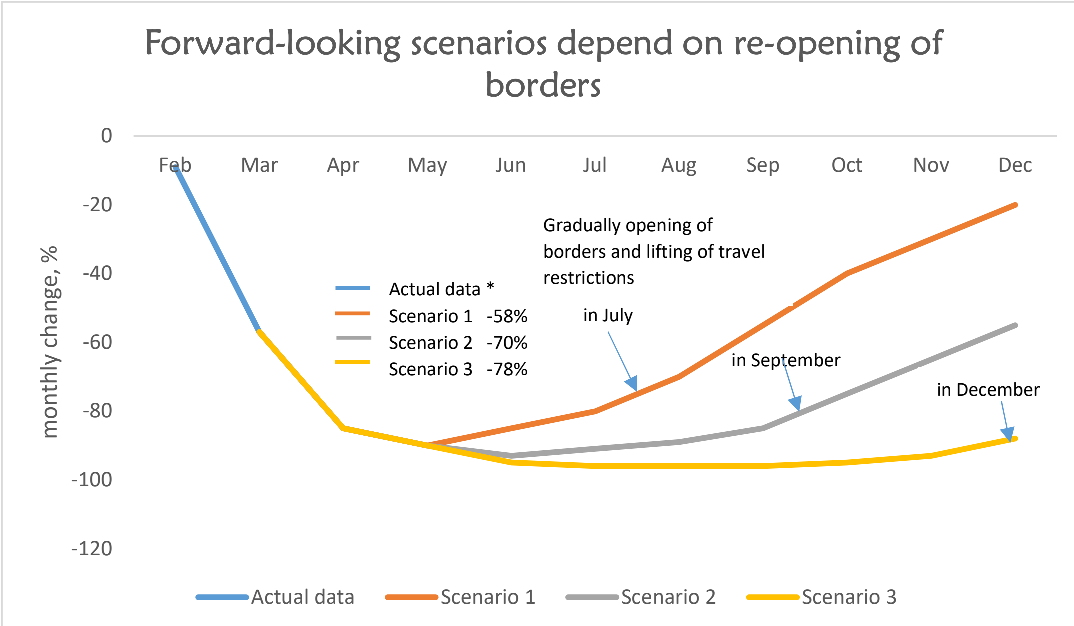
- 67 million fewer international tourist arrivals
- 80 US$ billion lost in exports
- 100% destinations with travel restrictions

Scenario Assumptions

Domestic demand expected to recover faster than international demand International demand would recover by Q4 and mainly in 2021 according to the UNWTO Panel of Experts survey responses.

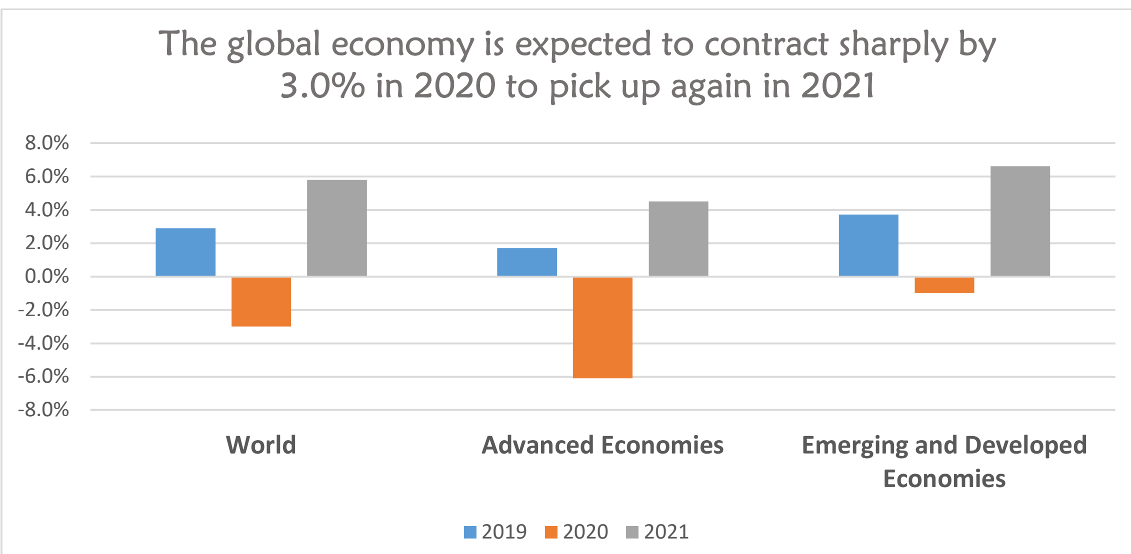
The scenarios presented in this graph are not forecasts. They represent alternative monthly change in arrivals based on the gradual opening of national borders and lifting of travel restrictions on different dates, still subject to high uncertainty.

Arrivals could drop 58% to 78% depending on pace of normalization. They are scenarios based on the possible opening of national borders and lifting of travel restrictions in July, Sept. and Dec. 2020 respectively. Largest blow to tourism ever could slash 1 billion arrivals. International tourism receipts could plunge by US$ 1 trillion.



Summary of Potential Impacts in 2020

- 850 million to 1.1 billion fewer international tourist arrivals
- US$ 910 billion to US$ 1.2 trillion loss in export revenues from tourism
- 100 to 120 million direct tourism jobs at risk.



Impacts of COVID-19 on hotels globally

Undeniably, hotels are one of the hardest-hit industries by COVID-19. As a result of massive cancellations of flights, tours, events, hotel reservations and a resultant decline in inbound travel, hotel occupancy rates and average room rates have dropped sharply causing unprecedented declines in profit margins. In Italy, 90% and 80% of all hotel bookings in Rome and Sicily respectively have been cancelled and for a relatively small tourist destination like Ghana, hotel occupancy rates are down from 70% to under 30%, with some hotels recording as low as 5%. Also, it has been reported that hotel industry REVPAR in the United States fell 11.6% for the week ending 7th March 2020.

The problem is compounded by lockdowns and other social distance protocols announced by governments in an attempt to 'flatten the curve'. Governments are in a dilemma as to how to flatten the curve without flattening their economies. Though hotels are experiencing substantial revenue losses, utilities, wages and salaries as well as other recurrent expenditure and statutory payments have to be made. From all intents and purposes, the hotel industry is headed for an unprecedented slump from COVID-19. According to experts, the pandemic will linger on for about two years. However, the fear of travelling and enforcement of social distance protocols will not go away soon after the pandemic subsides.

COVID-19 will leave the hotel industry badly bruised and there is a general agreement that the industry will not be the same long after the lockdowns and travel restrictions have been lifted. But hoteliers cannot afford to follow the existing model of operations. Hotels must adopt survival strategies against COVID-19. This calls for repackaging the hotel service to make it more attractive in this CIVID-19 era. After all, desperate situations require desperate measures.

It must be emphasized that the extent of the impact of COVID-19 on the entire economies of destinations and along the tourism value chain, requires government to provide leadership in managing the situation. Indeed, in most destinations, governments have instituted a number of austerity measures to help cushion businesses including hotels and restaurants off the debilitating effect of the pandemic. This has been in the form of relief funds, tax cuts, subsidies, credit facilities and employment support.

POTENTIAL IMPACT OF COVID-19 ON QATAR ECONOMY

Qatar is being impacted by two shocks—the spread of COVID-19 and the sharp decline in hydrocarbon prices. The authorities are putting in place policies to address these. As of May 17, Qatar has 30,972 cases with 3,788 recoveries and 15 deaths, making it the GCC's second worst-hit country for Covid-19. Measures implemented to contain the spread of the virus include: travel restrictions (suspension of all international passenger flights, a 14 day quarantine for all returning Qatari citizens, and suspension of public transportation); suspension of public and private schools (replaced with distance learning) and home services; closure of non-essential businesses (excluding groceries stores and pharmacies); banning all public gatherings and dining in cafes and restaurants; and cancellation of routine medical and dental appointments (except Well-baby, Vaccination Clinics, and Urgent Radiology and Ultrasound).

These measures have been complemented by required teleworking for 80 percent of private sector employees and vulnerable groups (older than 55, pregnant women, and those with chronic illness), reduced working hours (to six per day), public health awareness campaigns, intensified food inspections to ensure health compliance, more testing for COVID-19 (including a drive through station), and disinfection of 12 thousand square meters in the Industrial Area. Home delivery medical services have been expanded to contain the spread of COVID-19. The private sector is providing meals and hygiene baskets to workers in quarantined areas. A 150-bed hospital for quarantined workers has been set up in the Industrial Area, where there has been a high concentration of COVID-19 cases.

Reopening of the economy

The authorities have conducted widespread COVID-19 testing in the Industrial Area and are providing free healthcare to those affected, including by transporting 6,500 workers to a precautionary quarantine facility. Following these measures, the authorities fully opened the Industrial Area on May 6 (after closure since mid-March and partial opening since late April), though under strict and specific entry and exit regulations, where only employers and employees are allowed to enter or exit, and goods and materials may only enter or exit with an application to relevant authorities. Entry and exit regulations are implemented, in part, by the use of a mobile application. As of May 12, 2020, restaurants and cafés are allowed to resume the activity of delivering or handing over orders to customers outside the business place, with those establishments located in malls only allowed to process delivery orders and not hand over orders to customers both inside and outside the workplace.

There are at least three key factors that contributed to Qatar's relatively better outcome so far, including: 1) its enforcement of social distancing; 2) its young population; and 3) a capable healthcare system.

Qatar adopted a prompt response to the coronavirus threat with the enforcement of social distancing and widespread testing. Qatar's population aged 65 and over is low indicating a reduced risk of deaths. Qatar benefits from well supported healthcare system in comparison to other affected countries.

The Emir of Qatar announced several measures to shield the economic and financial sectors in the country from the impact of the COVID-19, including

1) *Allocating 75 billion Qatari riyals ($20.6 billion) to support and provide financial and economic incentives in the private sector.*
2) *Directing the Central Bank of Qatar to provide additional liquidity to banks operating in the country and putting in place the appropriate mechanism to encourage banks to postpone loan instalments and obligations of the private sector with a grace period of six months.*
3) *Directing the Qatar Development Bank to postpone the instalments for all borrowers for a period Global Economic Effects of COVID-19 Congressional Research Service 65 of six months.*
4) *Directing the government to increase its investments in the stock exchange by 10 billion Qatari riyals ($2.75 billion).*
5) *Exempting food and medical goods from customs duties for a period of six months.*

6) *Exempting the various sectors of the economy from electricity and water fees for a period of 6 months.*

The recent upgrade by Moody's of Qatar's rating to 'Aa3' with a 'stable' outlook in April 15 is also a sign of a resilient economy.

As with other major oil & gas exporting countries, Qatar will certainly witness a significant reduction in the demand for its hydrocarbons. The OPEC expects the demand for its crude to drop to its lowest in 30 years. This has led oil prices, which were already sliding for the last 6 years due to a slowdown in China and other developing economies, the greater competition from shale oil in the US and more recently the Russia- Saudi Arabia oil price war, to suffer its greatest slump ever. With no place to store it, US crude oil futures traded at a negative value.

The decrease in oil prices is also causing natural gas prices to fall, given energy demand as a whole is being impacted. Exports of LNG to China are being allocated to new buyers to absorb the additional supply that has come online in the last few years.

Low oil and gas prices, lockdown and the restriction to mobility across countries will delay several oil and gas upstream projects. New projects were already being delayed due the low gas prices amid a growing glut.

Manufacture and trade are being strongly affected by the lockdown with significant reduction of activities and major cash flow constraints. According to the community data collected by Google on Qatar, the movement of people dropped by 63% around retail & recreation areas and 35% for grocery & pharmacy.

The transportation sector as a whole witnessed a significant reduction in the movement of people and merchandise, while aviation came to an almost standstill. According to a Google data analysis on Qatar, the movement of people dropped by 60% around public transport hubs.

Construction in the private sector construction projects has been greatly affected by the coronavirus. Government projects mostly related to World Cup (stadium completion, Ashghal road projects) are ongoing but pace seems to be affected.

The financial services sector is better shielded than in the 2008 financial crisis by stronger capitalization, a wider use of digital solutions and their expected role in transferring money from the government to distressed companies.

For the real estate sector, retail and hospitality assets will be very highly affected, whereas for residential and commercial assets the impact is low on the short term (no leases have been foreclosed, no offices are closed – only quoted rents have fallen for new tenants).

Qatar Tourism and Hospitality

Tourism

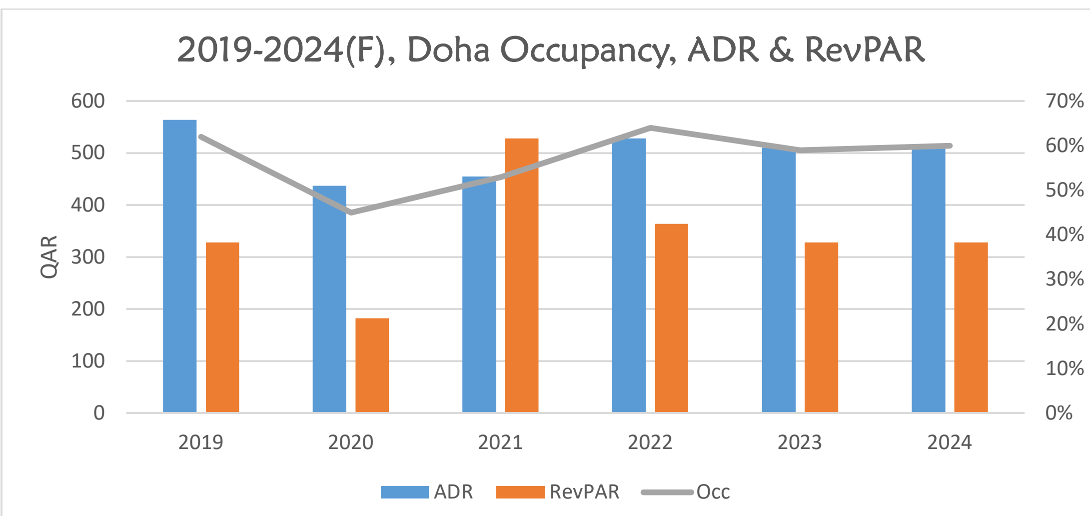
— Since the 2017 blockade, Qatar has taken measures to boost its tourism industry, including incentives given by Qatar Airways, organizing international sporting and other events, and upgrading the tourism product through the construction of more luxury hotels and the completion of infrastructure projects in the country.

— According to the Planning and Statistics Authority, the number of people visiting Qatar in 2019 was 2.14 million (2018: 1.82 million) representing an increase of approximately 17%. Doha Port hosted 57 cruise ships in 2019 carrying 127,582 passengers, an increase of more than 98% from year 2018.

Hotel & Hotel Apartments

— At 2019, Qatar had a total accommodation offering of 27,261 rooms across 130 properties, 24,562 of which are hotel rooms and 2,699 of which are hotel apartments.

— Room supply from properties under development is set to increase significantly in the coming years, with 107 projects (comprising an estimated 21,500 rooms) under various stages of development, as well as other project proposals under consideration.



Assumptions on Qatar Hospitality

- Hotel recovery in Doha will remain slow for the next 12 months succumbing to Doha's heavy dependence on international visitation. More than 80% of hotel guests emanate from Europe, US and Asian countries.
- A correction in market-wide occupancy is expected in 2023 and the hotel market is forecasted to stabilize and recover by 2024, albeit at lower levels than 2019.

- It is yet to be figured out if Doha would diversify its recreational offerings to attract the leisure traveler and reduce its dependence on the commercial segment.
- Doha will see strong growth in 2022 on the back of the anticipated demand in the lead up to and during the World Cup which will take place in November 2022.

Challenges

Parameters	Low	Med	High	Comment
Tourism			✓	With the closure of airports around the world and suspension of flights, it is expected that visitor arrivals into Qatar will decline substantially, adversely impacting the hospitality industry.
		✓		International travel is expected to be affected for some time after the lifting of the COVID-19 lockdowns citing the psychological impact of social distancing.
		✓		One of the industries significantly affected by the COVID-19 are the cruise liners. Many cruise line companies are expected to face going concern issues.
Hotel & Hotel Apartments			✓	Substantial decline of visitors into the country means occupancy rates will plunge and probably ARRs will come under pressure. These will remain substantially low even after the end of COVID-19 lockdowns as it is expected that people will need to regain trust in international travel. It is also expected that, given the psychological impact on people of distancing policies during the COVID-19 lockdowns, it will take some time until people are comfortable booking hotel accommodation
		✓		The hotels will also lose substantial revenues from organized events. In particular, the upcoming Ramadan functions at hotels will not happen. In the long-run business travel is expected to reduce and be substituted with tele- conferencing where possible; this seems to have been tested during the COVID-19 period and found to be a good substitute.
			✓	Hotels and apartments will face liquidity problems, and will try to manage their costs. In this respect, we will probably see cuts to salaries, layoffs of non-core staff, and suspension of future non-vital expenditure.

Opportunities

Parameters	Low	Med	High	Comment
Tourism			✓	On the positive side, the upcoming FIFA 2022 event could give a significant boost to the industry from the beginning of year 2022.
Hotel & Hotel Apartments		✓		A pivotal role during the COVID-19 period and the aftermath will be the support to be provided by the State of Qatar. Currently, we have had announcements by the government stating that QAR 75 billion, along

				with a series of other measures, will be allocated to support the private sector. That would definitely help the hospitality sector to remain in business during the short term.
	✓			Support of the banking sector to the economy, and to the hospitality sector in particular, will also play a critical role. Suspension of loan installments in the short-term and provision of low-interest rate loans in the medium term is crucial for the future of the industry
		✓		The upcoming projects, which are under consideration or design, will probably be postponed until there is better market visibility. FIFA 2022 remains in sight and the government may push many of these projects from that perspective through measures which will sustain new investments.

Key recommendations

Stakeholders	Short term	Medium to long term
Developers	- Deferring existing commitments to ease the immediate cash flow pressure. - For under construction developments, assess potential value engineering options through alternative materials, space redesign, etc. to reduce the budgeted CAPEX. - Renegotiate contract terms with suppliers, lenders and other service providers.	
Regulators	- Offer liquidity support to the system - Waive/defer fees and other government levies - Back lenders to ease ongoing financial impact	- Offer liquidity support to the system - Waive/defer fees and other government levies - Back lenders to ease ongoing financial impact
Customers	- Hotel operators should consider lenient customer policies for date change, cancellations and waivers during this period.	- Qatar Airways has already initiated providing a travel voucher as well as free of charge date changes for booked tickets. If required, the validity of the travel voucher may be extended further to accommodate the uncertainty.

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