

COVID-19

Industry Pulse Report: Tourism

13 May 2020

COVID-19 Industry Pulse Report: Tourism

- ▶ How does COVID-19 impact the tourism sector?
- ▶ What is the industry's sentiment around it?
- ▶ What actions could limit the impact for tourism and its ecosystem?





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Foreword

“ Hospitality and tourism have seen the most significant impact from COVID-19 with an almost complete shut-down in activity and bookings in many countries.

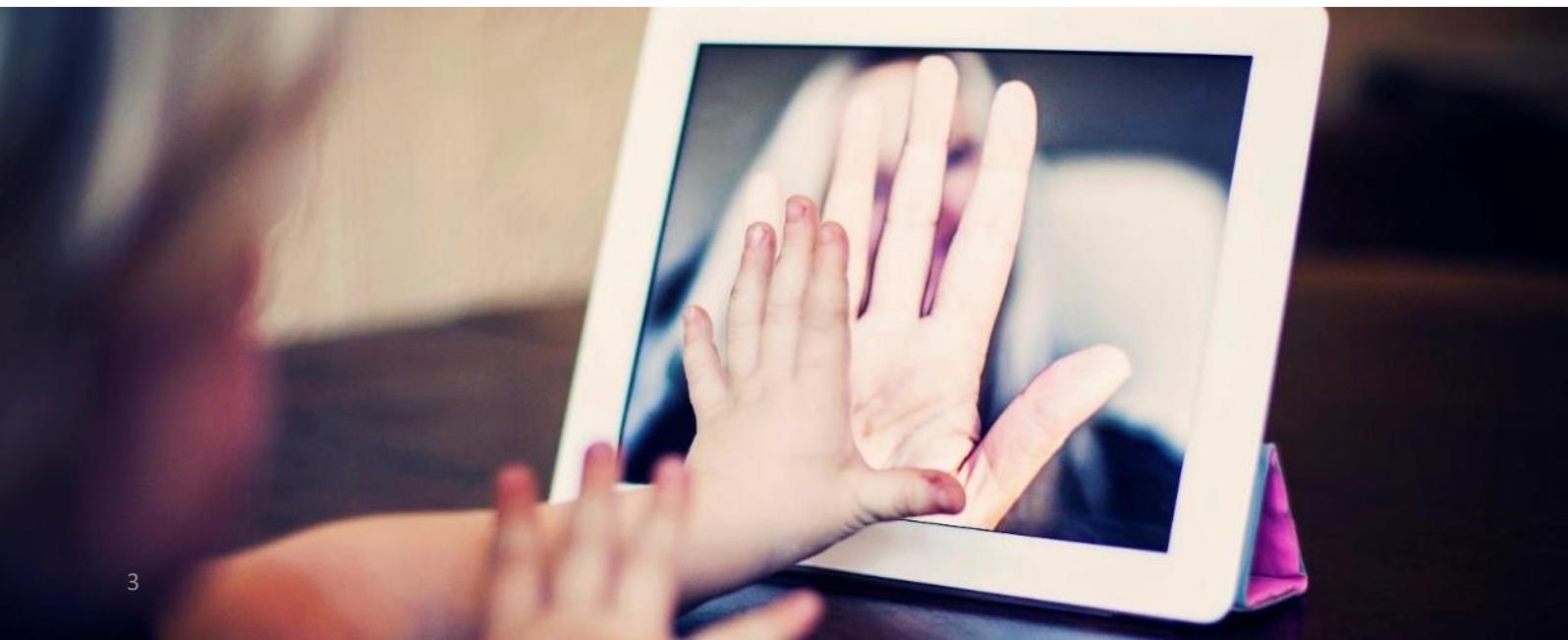
As one of Malta's main economic pillars and following several years of large increases in arrivals, the industry is now facing an unprecedented challenge, which requires constant monitoring to ensure proper understanding and sound decision-making.

Our team has prepared this *COVID-19 Industry Pulse* report specifically for the tourism sector because of its immense contribution to our economy and all our people. We provide a sector-specific perspective with regards to the pandemic's impact, in conjunction with the fiscal and monetary policy response, and even include our own assessment of likely scenarios and trends.

We have spoken to sector experts and leaders to obtain a realistic shared sense of their sentiments and expectations of this crisis, their views in relation to the response measures to date and their insights with regards to recovery scenarios and trends.

This publication will be updated periodically and shall incorporate the most updated publicly available information in relation to the impact of the virus on the industry, the Government and regulators' response actions as well as an updated economic assessment in accordance with our view.

We trust that this publication will become a reference document for discussion among stakeholders such as corporate executives, financial institutions and the Government.



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Executive Summary

The COVID-19 pandemic presents an unprecedented humanitarian crisis which has quickly developed into a severe global economic downturn that will have long-lasting consequences. The travel and tourism sector was one of the first sectors to feel the impact, and is one that will likely be among the last sectors to experience a meaningful recovery. There is substantial uncertainty on what will happen, and a lot will depend on exogenous factors such as the availability of a vaccine in the medium term, the health situation in key feeder markets and changing attitudes to travelling in the long-term across all segments including leisure, business and mass events.

What is clear, however, is that the road to recovery requires coordinated actions across all levels and stakeholders.

Industry Sentiment - Key Takeaways of the EY perception survey

EY has conducted a perception survey with regards to the potential impact of COVID-19 on the Maltese tourism sector, specifically with key executives from some of the major 3 to 5 star hotels, hotel chains and boutique hotels in Malta who were invited to share their sentiment on the impact of COVID-19 on their sector, including operations and financial performance. Feedback was obtained as at the first week of May 2020. Given the rapidly evolving landscape, there may be a need for further updates to capture events as they unfold.

View on financial performance

- ▶ The vast majority of participants expect **2020 to be significantly loss-making** and project **virtually no meaningful levels of occupancy or revenues** for the rest of the year
- ▶ Unanimous response that **all reservations until the end of June 2020 were either cancelled or deferred**. Similarly, bookings for the rest of the season are being cancelled or postponed gradually
- ▶ The majority of the participants expect a material risk of the crisis prolonging well into 2021
- ▶ Significant concerns that the recovery will be slow and difficult, while **uncertainty around the duration of the pandemic, availability of a vaccine, and changes in consumer behaviour** will exacerbate the matter
- ▶ All respondents shared a view that Malta needs to **revisit and assess its tourism product** in the light of the ongoing challenge, and step up its game across all areas

View on Government measures to-date

- ▶ Government support measures were well received by participants; need to have longer-term visibility of these was noted unanimously

View on industry behaviour and recovery

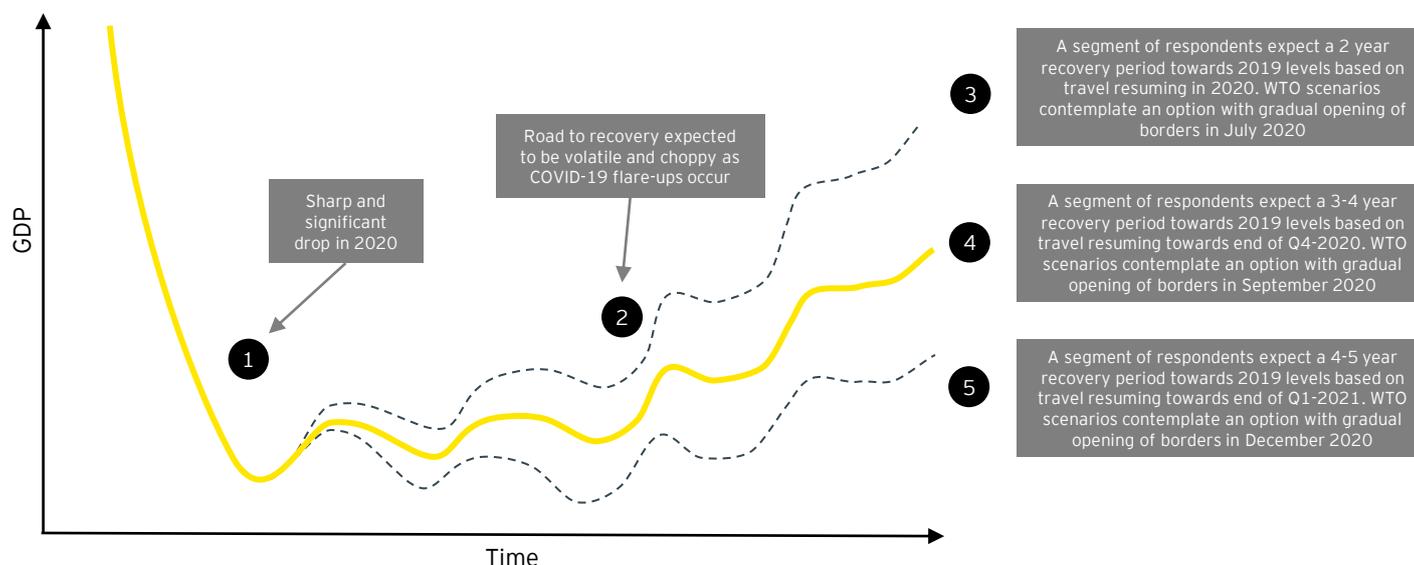
- ▶ Participants generally expect a meaningful **recovery to take between 2 and 5 years** before we see 2019 levels again
- ▶ With domestic tourism being very marginal at best, there is a **substantial dependence on how the situation will develop in our feeder markets and availability/ frequencies of routes and airport access**
- ▶ **Room rate reductions** are expected to kick in once tourism restarts gradually. This has been noted as a risk for the Maltese tourism product
- ▶ There is agreement across the board that **Malta's strategic approach to tourism needs to be reframed for a post-COVID-19 world**



Executive Summary (cont'd)

Industry perceptions around recovery period

The responses gathered as part of our perception survey note a number of potential scenarios that may affect the duration of the crisis and speed of recovery towards 2019 levels. The perceptions of our respondents are that the recovery can range between 2 to 5 years depending on certain core assumptions. A graphical representation of the feedback obtained is illustrated below, which also makes reference to international tourism 2020 scenarios recently published by WTO:



Recommendations

Measures to further support the industry respond to the COVID-19 challenges:

- ▶ **Revisiting our tourism offering;** a long-term strategic view on Malta's tourism offering in a post-COVID-19 reality needs to be developed
- ▶ **Increased efforts in promotion and building market confidence;** sector-wide efforts targeting key tourism segments need to be put at work
- ▶ **Government support measures;** in addition to the current subsidies, increased visibility on the duration of support measures is key to enable long-term planning in times of uncertainty. Further flexibilities around labour laws may assist companies as they navigate through periods of uncertainty
- ▶ **Further tax Incentives and other fiscal stimuli;** initiatives to reduce the immediate cash burden should be considered as part of a broader package for stakeholders in the tourism sector. These could take the form of potential reduced rates of VAT on hospitality services, tax incentives for technology investments and sanitization activities during the COVID-19 crisis and extending the generosity of loss carry-forward provisions

Preamble

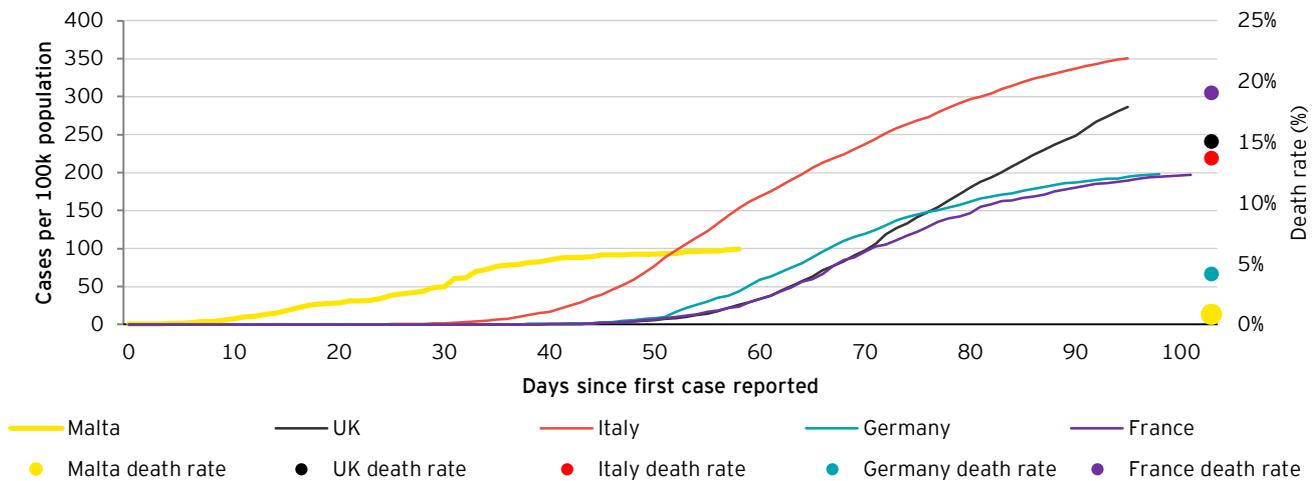
COVID-19 - Key Facts & Figures

Introduction

The objective of this Industry Pulse Report is to:

- ▶ Present a snapshot of the latest facts, figures and industry themes around COVID-19
- ▶ Obtain the industry sentiment around the impact of COVID-19 on the Tourism sector
- ▶ Estimate the potential impact of COVID-19 on Tourism in Malta
- ▶ Discuss effective fiscal and monetary measures for mitigating the above potential effects

Development of COVID-19 cases in Malta and key feeder markets



Source: European Centre for Disease Prevention and Control

International perspective on government reactions

In response to the rapid spread of the virus to date, governments across the globe have adopted health-centric measures based on World Health Organisation's guidance¹, with the aim to control the human-to-human transmission of the virus, and care for those affected. The measures focused on:

- ▶ Supporting the healthcare system through investment in necessary equipment & staff, protect health workers safety, ensure critical care of non-virus-related incidents;
- ▶ Enforcing social distancing, closures of school & public spaces, lockdown, curfew, quarantine;
- ▶ Controlling points of entry into the country, through strict border or travel bans;
- ▶ Contact tracing to identify cases, surveillance and monitoring of the spread;
- ▶ Testing ability, prepare capacity of national and private laboratories for rapid and reliable tests.

The introduction of these health measures has necessitated the consideration of unprecedented fiscal and monetary interventions by various governments to limit the anticipated economic downturn²:

- | | | |
|----------|--|---------|
| Fiscal | <ul style="list-style-type: none"> ▶ Households: income support and job guarantees, tax breaks, VAT reductions, extension of loan obligations, suspension of instalments and other relief measures such as utility bill reductions. ▶ Businesses: wage supplements, suspension of financial obligations, favourable loan terms, tax breaks, deferral of VAT payments as well as sector-specific grants and measures. | Health |
| Monetary | <ul style="list-style-type: none"> ▶ At EU level the ECB's €750bn Pandemic Emergency Purchase Programme was introduced to buy government and corporate debt, the removal of issuer limits from bond-buying programmes, releasing of capital and liquidity buffers for banks, government guarantees for new loans and suspension of loan installments for nine months. ▶ Various measures have been adopted at an EU level, including temporary State Aid rules to allow injection of Member States' national budgets into impacted areas, and provision of liquidity to companies through European Investment Bank instruments and €240bn for credit lines from the European Stability Mechanism. ▶ ECB to facilitate banks' provision of the necessary liquidity to borrowers, temporary relaxation of: Pillar 2 Guidance and liquidity coverage ratio, as well as flexibility in collateral requirements and classification and expectations on loss provisioning for non-performing loans that are covered by public guarantees. | Economy |

1. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance>
 2. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

Preamble (cont'd)

COVID-19 - Key Facts & Figures

Wider implications of COVID-19

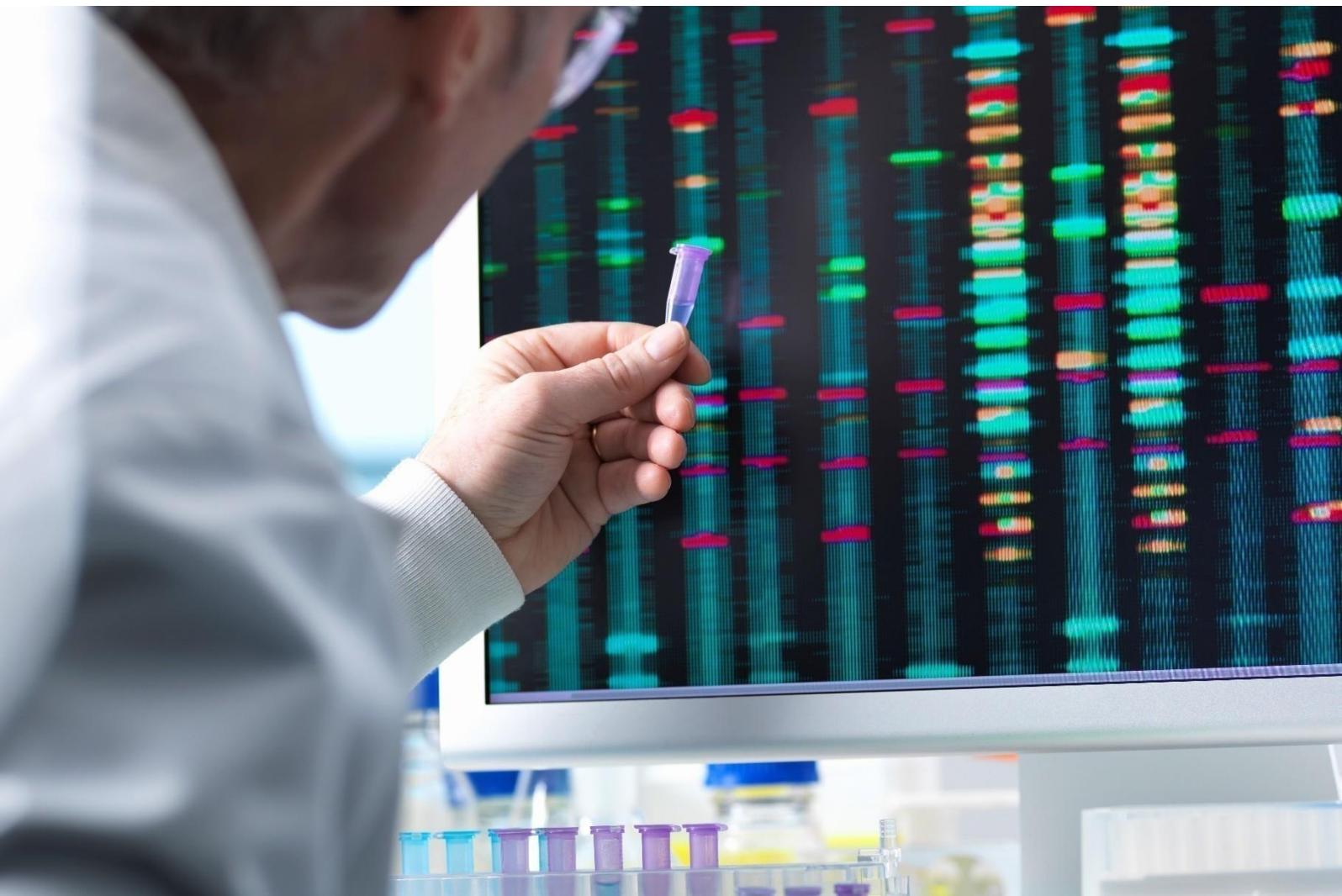
The social and economic ramifications in the aftermath of the pandemic are expected to be severe and widespread, with limited visibility on potential recovery timelines. These will likely include:

- ▶ Decline in consumption
- ▶ Drop in investment
- ▶ Structural changes as affected sectors shrink
- ▶ Spike in unemployment
- ▶ Potential banking crisis
- ▶ Long-term behavioural changes
- ▶ Overleverage as debt to GDP ratio spirals
- ▶ Sustained burden on the healthcare system
- ▶ Long-term loss in productivity
- ▶ Poverty increase
- ▶ Increased digitalisation

Wider Implications

According to the latest worldwide research and discussions, expected timeframes for key medical solutions are:

- ▶ Drugs/treatments: **6 months ++** (timing highly uncertain)
- ▶ Antigen (polymerase chain reaction "PCR") tests that are cheap, mass-scalable and reliable: **1-3 months**
- ▶ Antibody (immunity) tests that are inexpensive, mass-scalable and reliable: **1-3 months**
- ▶ Vaccination: **12-18 months** (timing highly uncertain and dependent on clinical trials)



Preamble (cont'd)

Global Tourism Industry & COVID-19

The following pages provide a high level overview the growing performance of the global and local tourism industries during recent years and the anticipated COVID-19 impact on their impressive growth.

This Pulse report, survey and results, address the COVID-19 impact on the Maltese Tourism Industry on the basis of its effect on tourist arrivals and tourist spending. A similar approach was adopted by the World Tourism Organisation (“WTO”) in the case of the global industry. The qualitative part of the analysis and the perception survey has focused on the hotel sector.

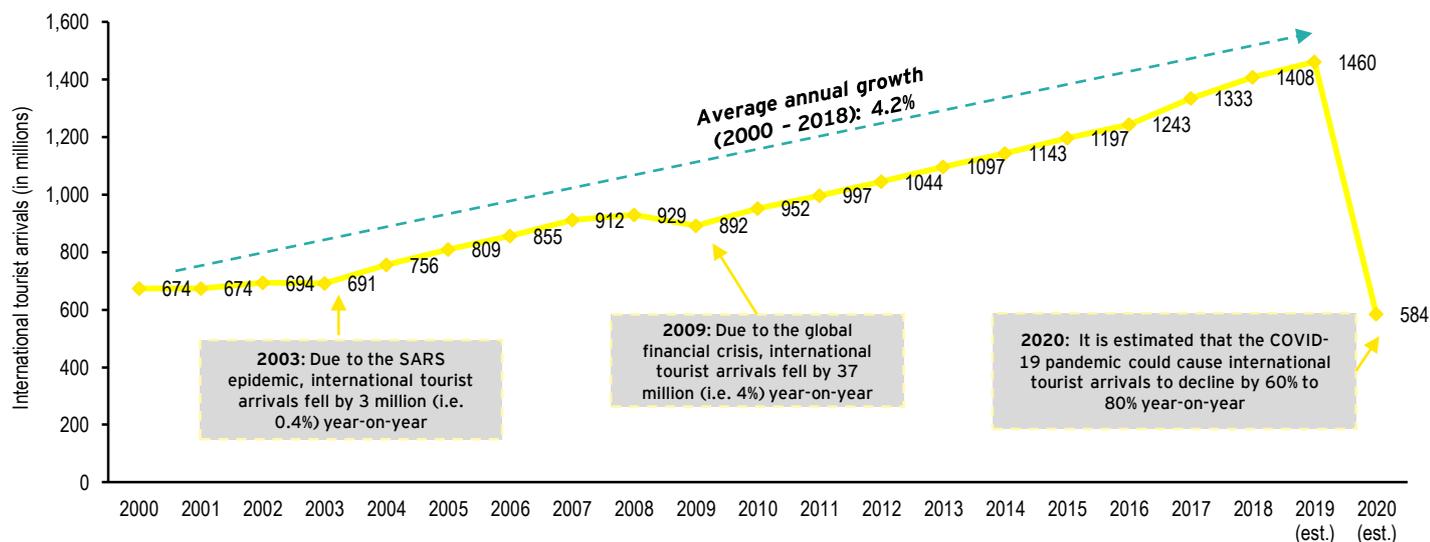
Recent past performance of Global Tourism Industry and COVID-19 impact

According to the WTO, international tourism has experienced a continued expansion in recent years, withstanding set-backs from the SARS epidemic (2003) and financial crisis (2009). Historically, the sector has demonstrated resilience to demand shocks and has acted as a pillar for economic recovery in other sectors through ripple effects.

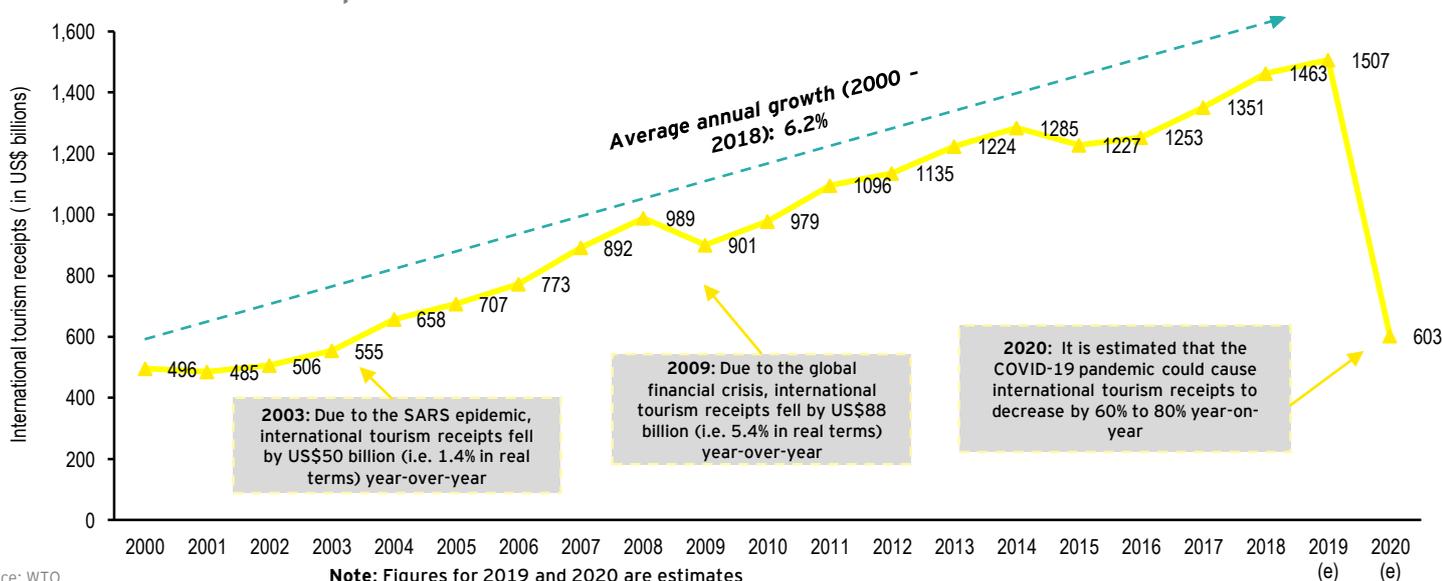
Total international tourist arrivals reached 1.5 billion in 2019; with an average year-on-year increase of 4%. International tourism receipts⁽¹⁾ reached US\$1.5 trillion in 2018 and are estimated at similar levels for 2019.

In view of the COVID-19 pandemic, WTO projects that international tourist arrivals in 2020 could experience a year-on-year decline in the region of 60% to 80%. This could translate to revenue losses of \$910bn to \$1.2tn in export revenues from tourism according to WTO.

International tourist arrivals



International tourism receipts⁽¹⁾



Notes: 1. International tourism receipts are defined by WTO as expenditure of international inbound visitors (including their payments to national carriers for international transport). They also include any other payments or payments afterwards made for goods and services received in the destination country.

Preamble (cont'd)

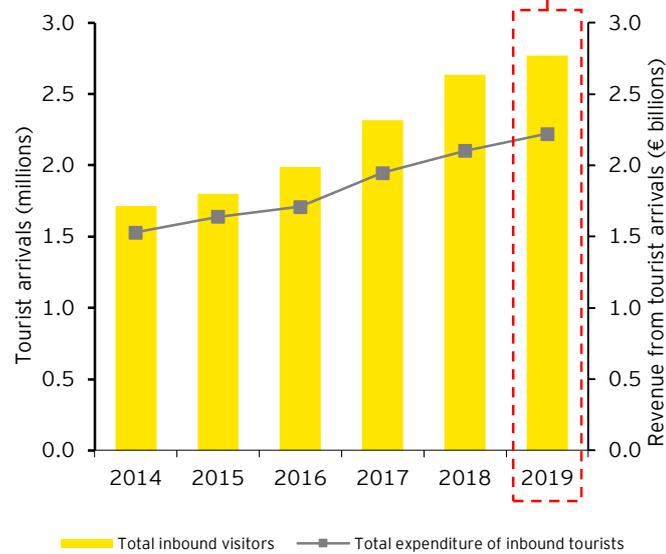
The Tourism Industry in Malta

Recent and past performance

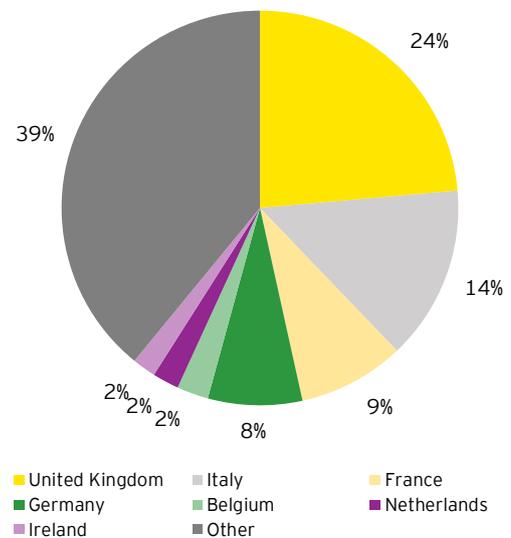
In line with the global tourism sector, the Maltese sector has experienced considerable and sustained growth year-on-year. Tourism is a key pillar of the Maltese Economy, with substantial direct and indirect contributions towards wealth generation, employment and investment in tourism infrastructure over the years. The increase in the tourism sector was also in line with a general economic growth across all key economic sectors in Malta, which has consistently outstripped EU27 average growth in recent years.

In 2019 there were 2.8 million tourist arrivals resulting in direct spending levels of €2.2 billion into the Maltese economy. A number of studies indicate the sector's contribution at around 15 to 20% of GDP, including direct, indirect and induced effects from other sectors such as retail and transport.

Tourist arrivals and revenue in Malta

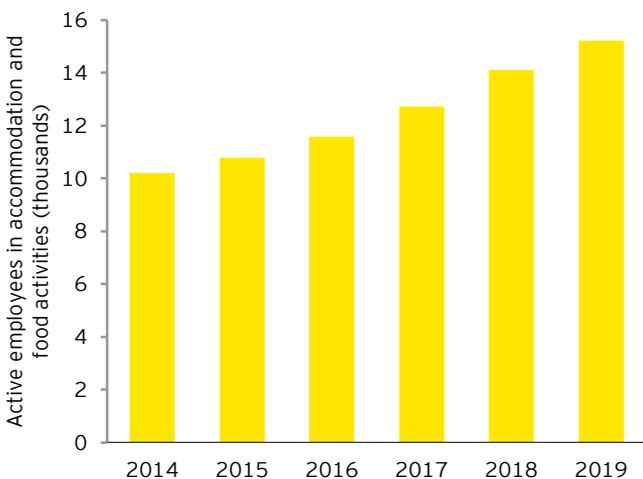


Key tourist feeder markets in 2019



Note: Revenue from tourist arrivals includes visitors' accommodation spending and other expenditure during their stay (such as food & beverages)

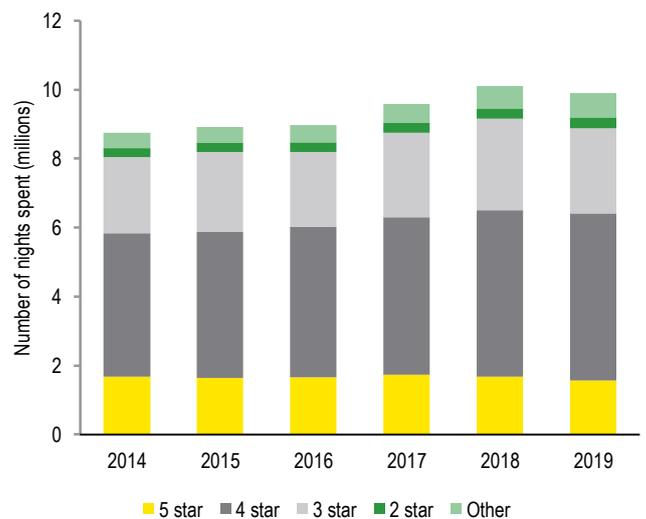
Number of persons employed in accommodation and food services



Note: Figures for 2019 are as at October 2019, while previous years are as at December

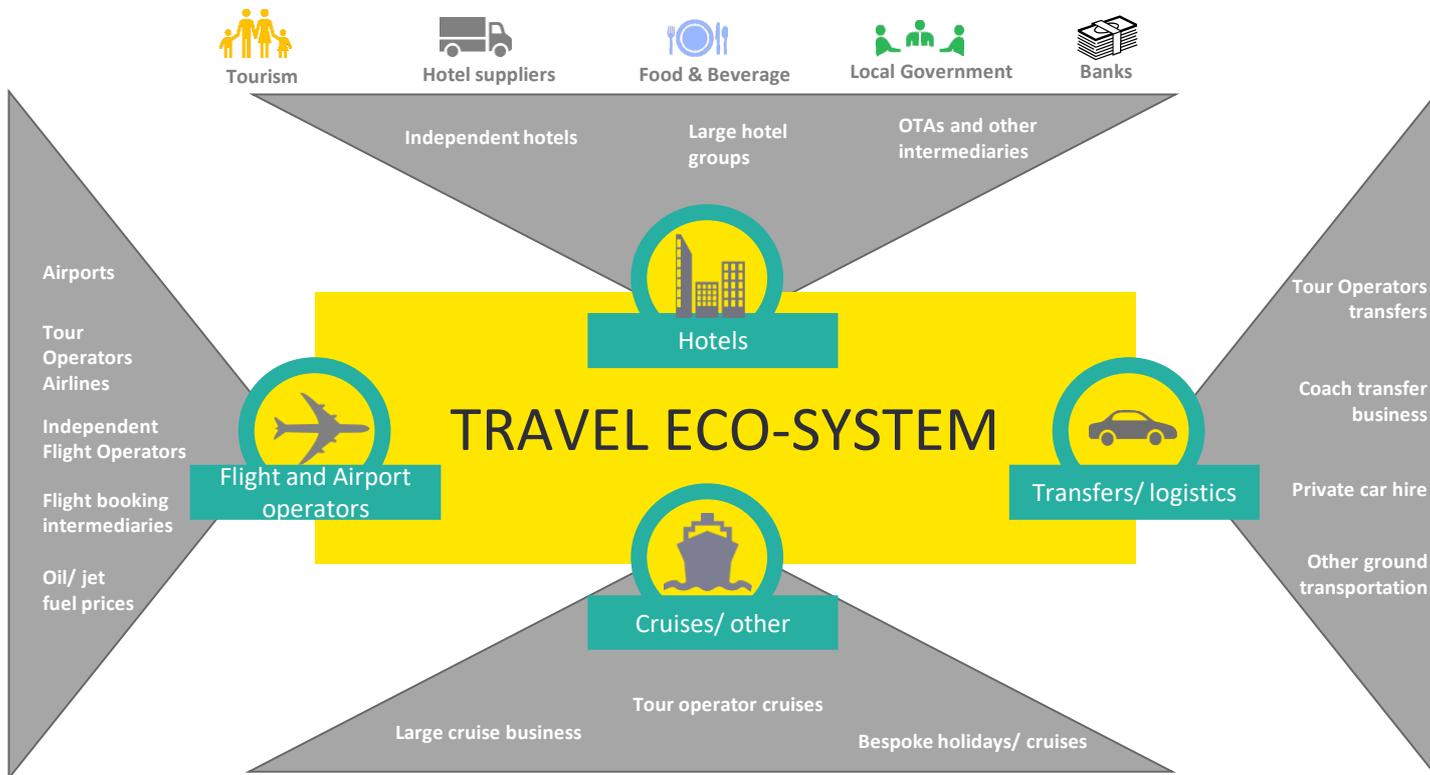
Source: All charts based on data from the National Statistics Office (NSO), Malta

Number of nights spent by type of accommodation



Tourism stakeholder map and COVID-19 Impact Sector's Ecosystem, Key Pain-Points and Reactions

The Maltese travel eco-system is highly dependent on a range of stakeholders. COVID-19 has had a material impact on the vast majority of stakeholders and players that creates ongoing risks and uncertainty around recovery period.



Hotels

COVID-19 impact

- ▶ Significant reduction in revenue due to the cancellation of bookings/events and the suspension of operations across leisure, corporate and MICE segments
- ▶ High fixed costs impact bottom line profitability and cash liquidity pressures as revenues fall dramatically
- ▶ High uncertainty surrounding the pandemic hinders management planning

Reaction

- ▶ Full or partial suspension of operations to mitigate losses; Focus on working capital management including collections, credit term renegotiations and adjustment of orders
- ▶ Cost-saving exercises including staff cost reductions, suspension of advertising and promotion plans, and rent renegotiation. This is coupled with a detailed re-assessment of health and safety protocols going forward that will increase operating costs
- ▶ Deferral of non-essential planned capital expenditure such as hotel renovations and extensions

Customers

COVID-19 impact

- ▶ Customers face lockdowns and travel restrictions for the duration of the pandemic
- ▶ Job insecurity and uncertainty over disposable income, together with the risk of infection, deter new holiday bookings

Reaction

- ▶ Cancellation or postponement of holidays, english student learning programmes and other travel plans
- ▶ Reduced spending due to decrease in holiday budgets exerts pressure on prices
- ▶ Short-term change in customer behaviour away from hotels, with increased sensitivity towards social distancing, hygiene and environmental considerations
- ▶ Shift of business meetings to virtual environments in a bid by employers to save on costs and reduce risks of infection even after travel restrictions are relaxed

Tour Operators

COVID-19 impact

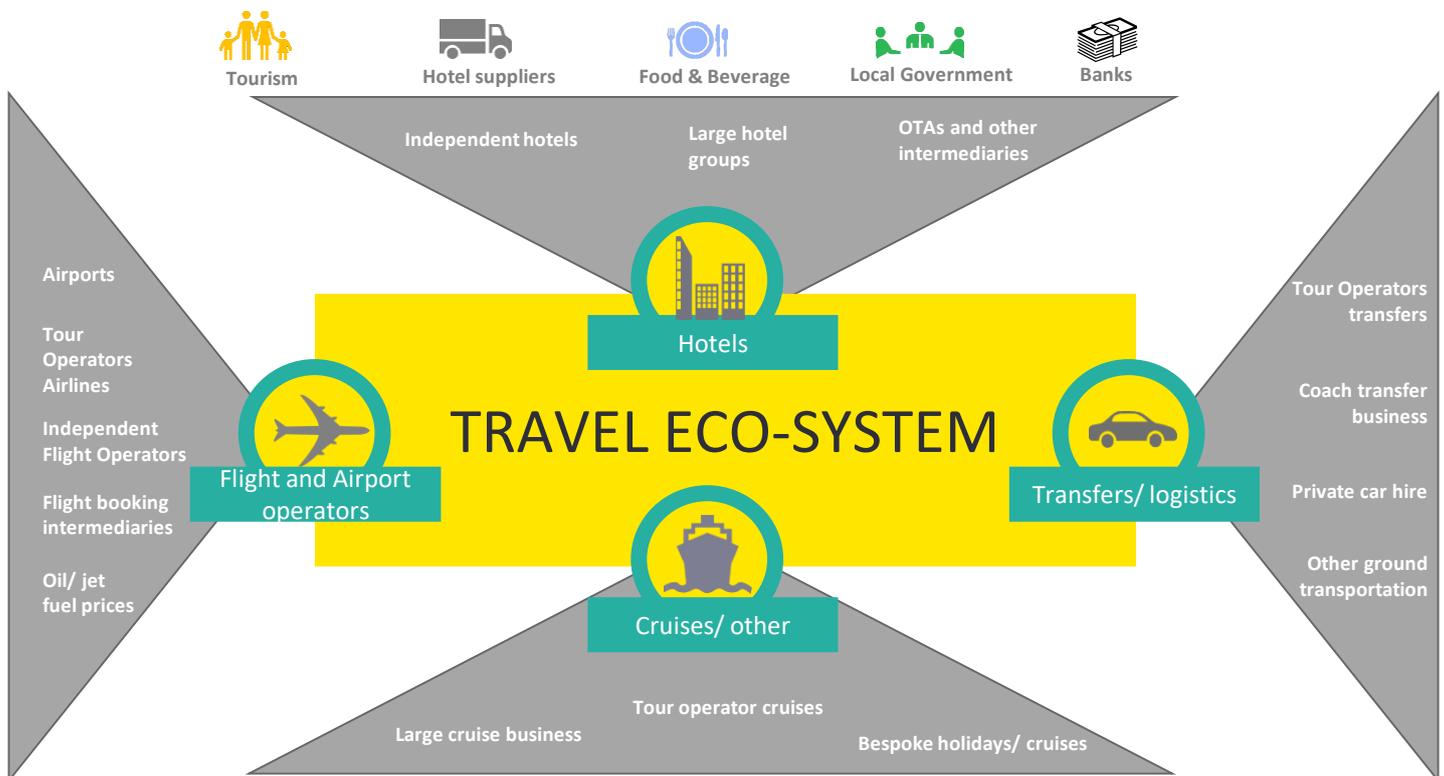
- ▶ Tour operators face cancellations/refund requests and liquidity pressure. Increasing pressure to downscale

Reaction

- ▶ Substantial drop in operations, coupled with aggressive cost-cutting measures

Tourism stakeholder map and COVID-19 Impact (cont'd)

Sector's Ecosystem, Key Pain-Points and Reactions



Banking

COVID-19 impact

- ▶ Decreased ability of hoteliers and related stakeholders to service debt obligations leads to an increase in NPEs
- ▶ Reduction in new business lending as hoteliers put on hold planned expansions and other capital expenditure
- ▶ Reduction in banks' profitability due to provision of liquidity at lower interest rates, debt restructurings, NPE provisions and write-offs
- ▶ Consideration of property valuation considerations on loan-to-collateral ratios

Reaction

- ▶ Banks provide flexibility to hoteliers to defer and/or restructure their debt obligations
- ▶ Extension of funding lines to travel and tourism companies as a stimulus to prevent defaults
- ▶ Roll-out of facilities backed by Malta Development Bank Covid-19 Guarantee Scheme

Government & Regulators

COVID-19 impact

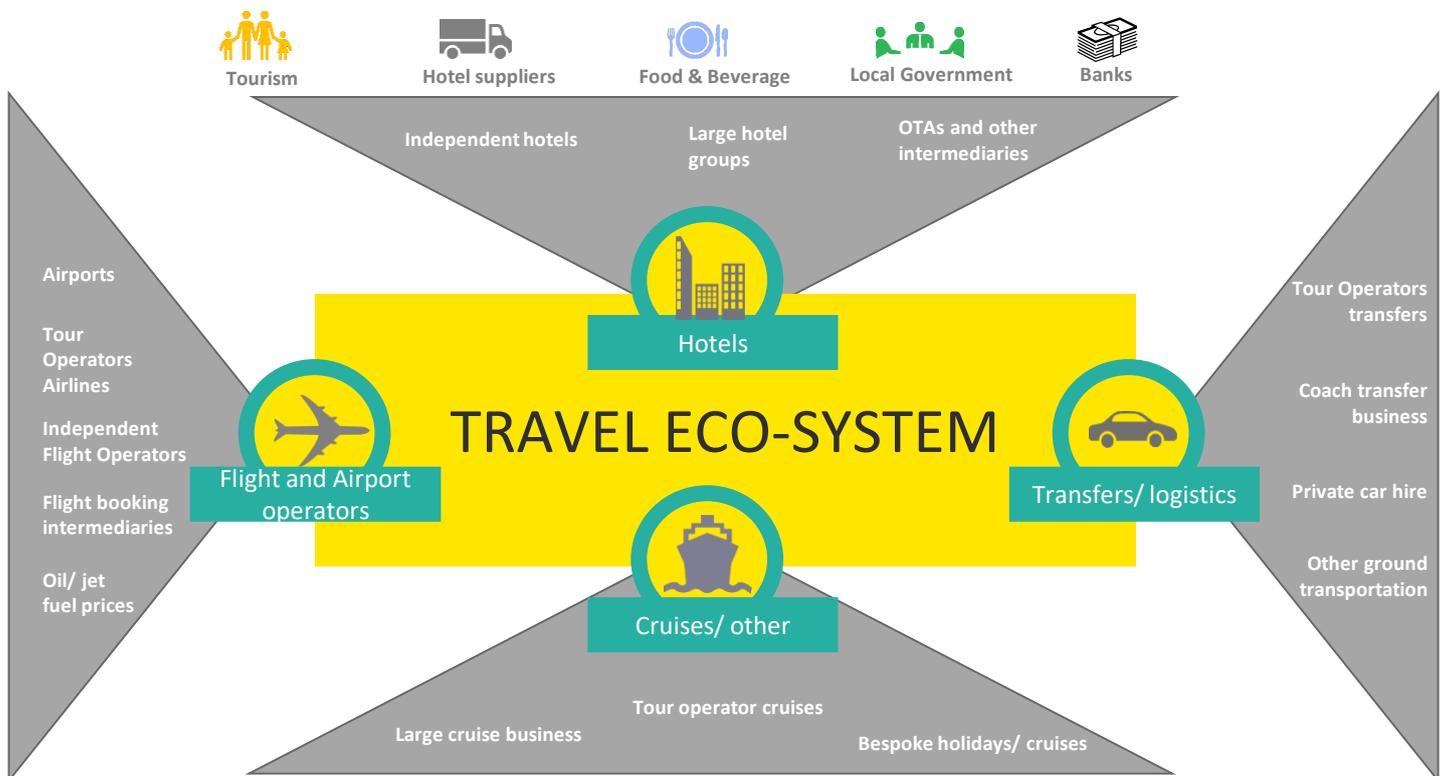
- ▶ Suspension/downsizing of hotel operations leads to reduced Government inflows in the form of taxation
- ▶ Decline in governmental inflows through the adverse economic impact on other players relying on the hospitality sector
- ▶ Pressure on Government to support the economy and social welfare

Reaction

- ▶ Fiscal and financial support measures to provide a cushion for the sector and boost liquidity such as guarantees and financial assistance for hospitality companies, staff compensation schemes, and deferral of tax payments
- ▶ The Malta Tourism Authority (MTA) launched a campaign to promote Malta's post-COVID-19 tourism showcasing the best characteristics of the Maltese Islands compared with competing destinations
- ▶ MTA driven initiatives for the re-skilling of personnel in the tourism workforce
- ▶ Discussions at EU level and with stakeholders on the gradual reopening of the economy, reopening of the airport and establishment of safe travel corridors and travel 'bubbles'

Tourism stakeholder map and COVID-19 Impact (cont'd)

Sector's Ecosystem, Key Pain-Points and Reactions



Workforce

COVID-19 impact

- ▶ With payroll being the highest expense item for hoteliers, cost-cutting measures threaten workforce through salary reductions, redundancies and halt on new recruitments, leading to an increase in sectoral unemployment and reduced disposable income for employees
- ▶ Increased health and safety concerns of the workforce in hotels due to exposure
- ▶ Staff face difficulties in carrying out normal duties due to children out of schools, quarantines and social distancing

Reaction

- ▶ Employers apply for relevant Government support schemes
- ▶ Staff consider alternative income sources in order to compensate for the loss
- ▶ Costly additional procedures required to secure the health and safety of staff
- ▶ Staff likely to reduce own spending in order to deal with insecurity and lower disposable income

Suppliers

COVID-19 impact

- ▶ Suspension of hotel operations leads to steep decline in demand for key supplies (food & beverage, linen, toiletries, etc.). This is expected to continue for 2020 whilst hotels remain closed or with very low occupancy
- ▶ Some hotels default on payments to suppliers for existing balances due to cash liquidity issues
- ▶ Supply chain disruptions due to international lockdowns and other restrictions

Reaction

- ▶ Cost-cutting actions by suppliers, including staff redundancies / salary cuts and application for government support schemes
- ▶ Adjustment of Working Capital management by suppliers (change of credit terms, reduction of inventories, etc.)

Restaurants, bars & shops, transport companies

COVID-19 impact

- ▶ Significant reduction in revenues due to restricted operations and, indirectly due to the suspension of hotel operations
- ▶ Liquidity pressures

Reaction

- ▶ Suspension of operations
- ▶ Actions to maintain liquidity such as cost-cutting, working capital adjustments and application for government support schemes

Industry Sentiment

EY Perception Survey

EY carried out a Survey between the end of April and beginning of May 2020 on the potential impact of COVID-19 on the Maltese Tourism sector. C-suite representatives of the largest hotels and hotel chains operating in the Maltese Islands gave their views on COVID-19's impact on the sector. This section outlines the main results of the feedback gathered covering key operational, financial and strategic considerations.

It should be noted that the below responses reflect participants' views at a specific point in time. Although a number of weeks into the crisis have passed, giving some insight into the situation, it is still important to highlight that the rapidly changing COVID-19 scenario makes participants' future predictions even more difficult:

Q What effect have booking cancellations for 2020 had on your revenue to date? What is your hotel/industry's financial outlook for this year?

- ▶ New reservations/bookings for the rest of the year have all but ceased completely across all the participants' hotels.
- ▶ Cancellations and/or refund requests on existing bookings have also started for the summer months and in some cases even for the last quarter of 2020. Large conferences and group bookings are being postponed to 2021 or cancelled entirely.
- ▶ The great majority of participants expect 2020 to be significantly loss-making, with no meaningful revenue generation potential irrespective of whether borders reopen in the coming months.
- ▶ Most participants expect recovery to start in 2021 albeit at a slow pace. Still, there is significant uncertainty around propensity to travel after 2020 which can be impacted by lower disposable income and health risks posed by persisting COVID-19 considerations.
- ▶ Deteriorating situation in Malta's typical feeder markets makes the situation more uncertain.

Q When do you expect to resume operations? What is your hotel/industry's operational outlook for this year?

- ▶ Most participants do not expect to resume operations before September 2020 at the earliest.
- ▶ Currently some participants are gearing up for a possible partial re-opening of their facilities in summer.
- ▶ Some have temporarily redeployed staff to support in other areas of the operations and maintenance functions.
- ▶ Most participants are working on various scenarios to also assist in any ongoing discussions with financial institutions. Although these scenarios vary across all properties, most entities expect very limited to no revenues for the remaining months of 2020.
- ▶ Most hotels have rolled out shorter working weeks and pay cuts for employees to minimize costs, and don't envisage a significant improvement before the end of the year unless a vaccine is found.



“The length of time that the airport remains closed will be a deal breaker. However airlines’ ability and willingness to fly to Malta and visitor demand are also indispensable.”

- Survey Participant

Industry Sentiment (cont'd)

EY Perception Survey

Q

How do you think the industry will respond to this crisis? What measures do you intend to adopt to manage the situation?

- ▶ Although all participants would like to retain prices constant, there is a widespread belief that aggressive rate cutting will be adopted in the coming months and years as a result of oversupply and low volume of tourists. An increased bedstock, both recently added and on plan, will also contribute to this.
- ▶ Most envisage the need to improve service offering to attract increasingly demanding visitors.
- ▶ The vast majority of participants have stopped their 2020 advertising plans, and deferred capital expenditure. These will be restarted once the situation and timelines become clearer.
- ▶ The dependency of Malta' tourism sector on the ability and willingness of airlines to fly to Malta, and operate cost effective flights under social distancing regulations, is also of concern to most participants. Many believe that flights will generally become more expensive for all.
- ▶ Most participants are finding it difficult to plan ahead due to the uncertainty of the situation and the lack of a government public roadmap for lockdown reversal and availability of financial measures.
- ▶ There is unanimity that the pandemic will change Malta's tourism model and that all operators need to adapt to these new realities.
- ▶ A few participants intend to tap the domestic market. However this is not really an attractive prospect for most participants given the potentially low volumes that are not sufficient to cover the fixed overhead base.

Q

When will the tourism industry in Malta make a full recovery and return back to 2019 levels?

- ▶ The majority of participants do not believe Malta will return to 2019 visitor numbers before 2 to 5 years from now. There is also growing concern as to whether these levels will be attained.
- ▶ Obligations of future social distancing legislation and incoming visitors expectations /requirements will reduce annual tourism numbers.
- ▶ New regulations may mean that certain operations, including parts of current F&B offerings, may not be financially viable and will need to be re-dimensioned and/or discontinued.
- ▶ All participants believe that continued COVID-19 assistance schemes will remain indispensable for their recovery and that this assistance should continue to be granted for a period of time even after Maltese borders are re-opened.
- ▶ Visitor demand is ultimately dependent on the development and successful rollout of an effective COVID-19 vaccine.

Industry Sentiment (cont'd)

EY Perception Survey

Q How is the COVID-19 scenario expected to affect the behavior of prospective guests?

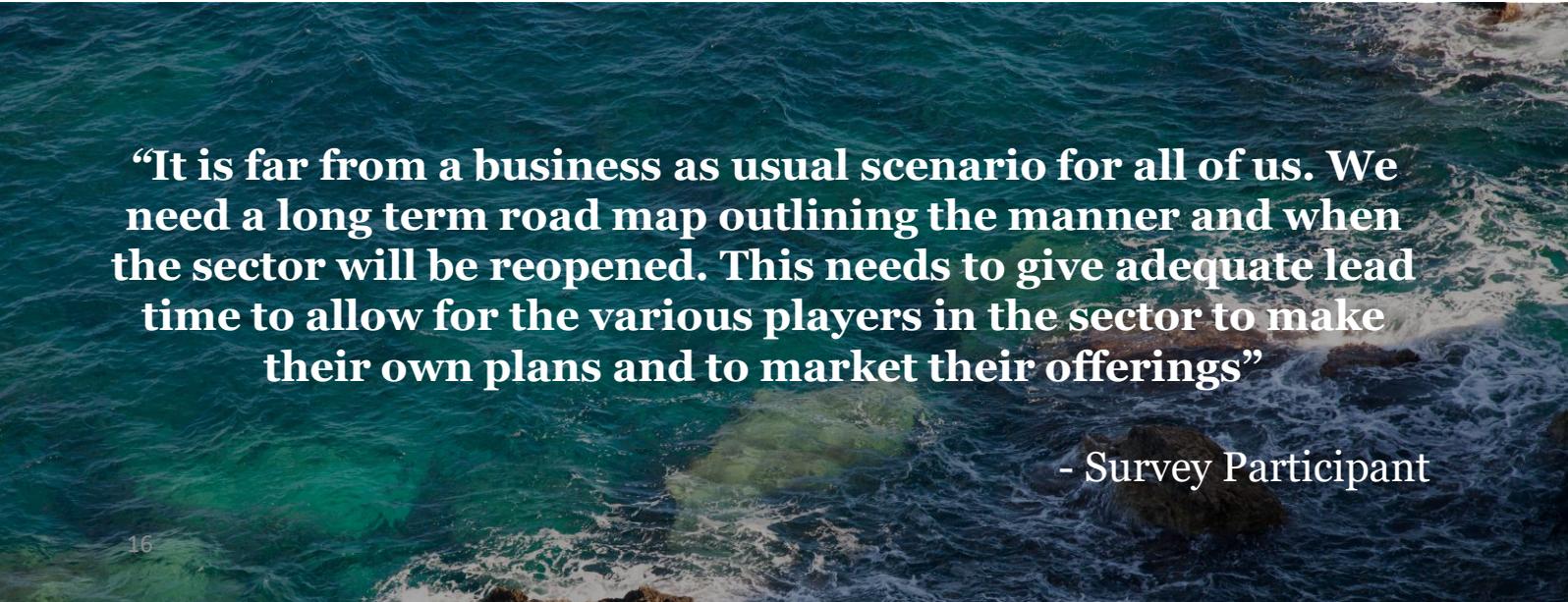
- ▶ Traditional feeder markets have generally been badly hit by the pandemic and still facing a lot of uncertainty. Many countries' efforts to promote domestic tourism over international travel may also impinge tourism flows to Malta.
- ▶ All participants believe that incoming visitors will increasingly demand social distance spacing, as well as prefer venues which are less crowded, offer better cleaning services and set aside rooms and facilities between different patrons. They will also be increasingly aware of their environmental footprint and hence reduce their demand for travelling or opt for shorter trips than before.
- ▶ Guests may also not accept certain food presentations such as buffet arrangements
- ▶ Most participants believe that demand for more secluded and/or standalone forms of accommodation will probably increase.

Q How does the suspension of your operations impact your suppliers and other service providers?

- ▶ Non-essential expenditure has been curtailed, and this included the suspension of any planned sales and marketing campaigns.
- ▶ Most participants have already delayed and/or frozen payments to suppliers and stopped various sub-contracted services.
- ▶ Some participants highlighted that food suppliers who are dependent primarily or solely on hotels are facing difficulties to move their stock, some of which have a short shelf life.
- ▶ None of the participants expressed any concern about having supply issues in the future.

Q Are you currently facing any cash flow problems? Will you be seeking liquidity support from the banks?

- ▶ All participants are monitoring their short term cashflow and working capital management and minimised their non-essential expenditure. Most hotels have introduced reduced wages and working hours to try to reduce cash flow challenges.
- ▶ All participants have been implementing cost reduction exercises and the vast majority will actively consider staff redundancies if current assistance schemes expire prematurely.
- ▶ Some participants are also seeking liquidity and moratorium support from the commercial banks and augur that the banks understand the major challenges they are facing and improve their service offering further.
- ▶ A number of participants have indicated the need for banks to consider lower interest rates on facilities as further support to sector stakeholders.



“It is far from a business as usual scenario for all of us. We need a long term road map outlining the manner and when the sector will be reopened. This needs to give adequate lead time to allow for the various players in the sector to make their own plans and to market their offerings”

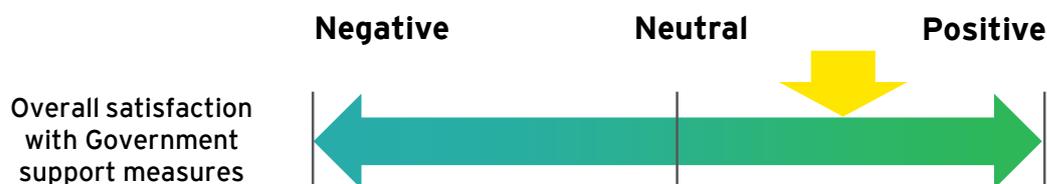
- Survey Participant

Industry Sentiment (cont'd)

EY Perception Survey

Q How effective are existing Government COVID-19 support measures for the hospitality industry?

- ▶ All participants were positive about Government funding support although payment delays and the lack of in-depth information on the different schemes were also expressed. The Malta Enterprise wage supplement and Malta Development Bank supported schemes are the most popular.
- ▶ The schemes have stopped the sector from witnessing major redundancies to date.
- ▶ Additional fiscal and administrative incentives have been identified as potentially important to keep on supporting the tourism sector at this time. Incentives such as tax breaks, VAT rate reductions, suspension of NI payments, utility/ rental payments and legislation of furlough regulations have been noted as possible measures.



Additional feedback

“ Metrics by which we used to measure the industry will have to change – some operations will simply not remain feasible.



“ The assistance schemes effectively stopped us from making major redundancies and need to remain in place even after the sector is fully opened.

“ We need to look at our source market policies and support schemes when designing Malta-specific support mechanisms.

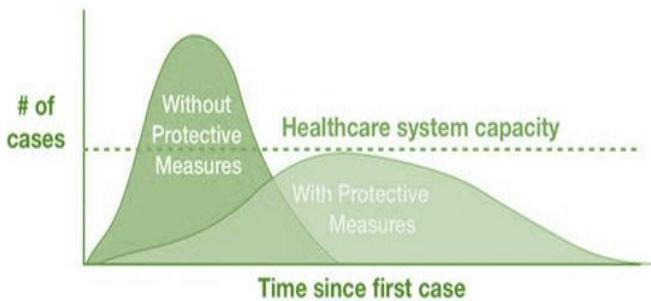
“ The government needs to adopt a clear 10 year plan for the country and tourism, outlining the direction that Malta needs to take in the long-term. COVID-19 may be the opportunity for us to restart our tourism sector.

“ Hotels need to re-engineer their business and focus on quality rather than volume.

COVID-19 impact on Tourism

Overview of key considerations and scenarios

Health measures and virus control



Source: <https://www.nytimes.com/article/flatten-curvecoronavirus.html>

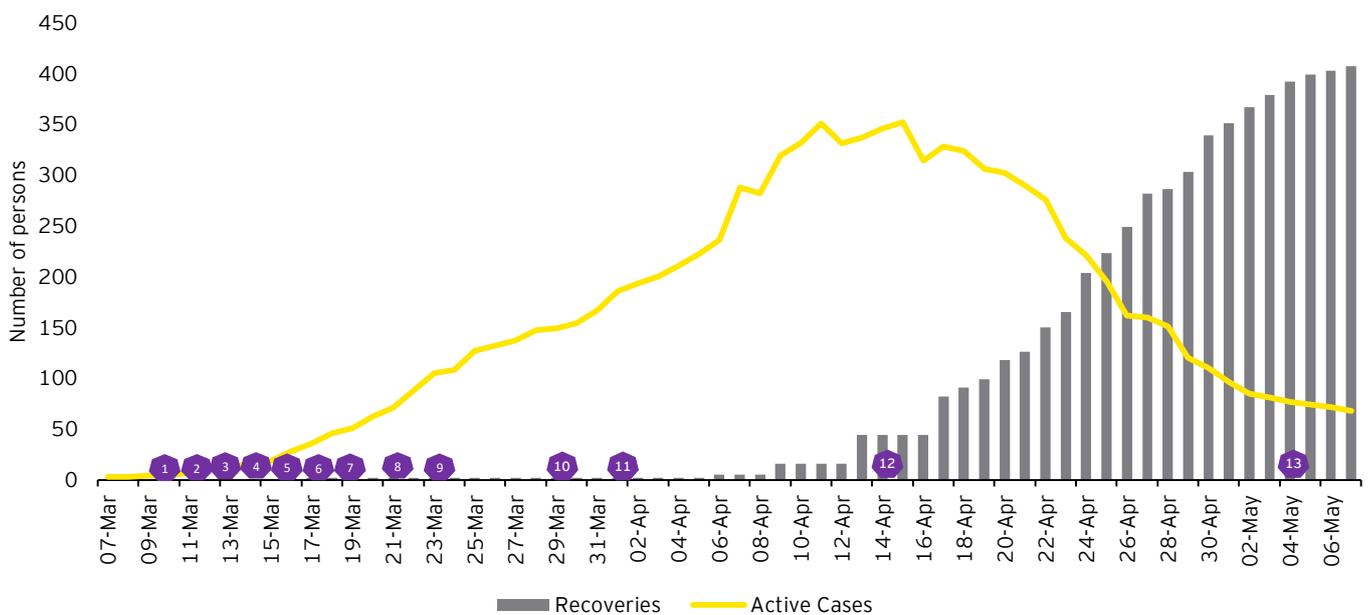
COVID-19 has to date infected millions of people across the globe. As witnessed by the spread of the virus in some of the major European countries like Italy, Spain and the UK, the rate at which a population becomes infected makes all the difference in whether the health system has sufficient resources to deal with infected patients.

In line with the ‘flattening the curve’ strategy adopted by various countries across the globe (illustrated in the opposite chart), to date Malta has successfully managed to control the local virus spread by reducing the number of active cases at any given time, allowing the health service to cope with new cases.

In line with WHO guidelines, the Maltese Government has countered the local spread of the COVID-19 pandemic by introducing various preventive measures. These measures range from social distancing rules to travel bans and lockdowns for vulnerable people. The chart below illustrates the evolution of the spread of the novel coronavirus in Malta and outlines the chronological escalation of key preventive measures:

- | | |
|--|---|
| <ul style="list-style-type: none"> 1 Ban on all travel to Italy 2 Ban of outdoor events more than 2,000 people and indoor events of 700 people 3 Ban on all travel to France, Germany, Switzerland and Spain. Introduction of mandatory quarantine for any inbound passengers from these countries. Introduction of € 1,000 fine for breaches of mandatory quarantine. 4 Closure of all schools and educational establishments 5 All individuals entering into Malta imposed 14-day mandatory quarantine 6 Breaching quarantine fine raised to €3,000 and raised to €10,000 for confirmed virus patients | <ul style="list-style-type: none"> 7 Closure of bars and restaurants 8 Suspension of all commercial flights 9 Closure of all non-essential outlets 10 Lockdown rules for vulnerable groups 11 Groups of 3 or more gathering in public places to be fined €100 each 12 Potential penal ramifications for willful spreading of COVID-19 13 Gradual reopening of certain businesses subject to social distancing measures |
|--|---|

COVID-19 cases in Malta



Sources: Government of Malta

COVID-19 impact on Tourism (cont'd)

Overview of key considerations and scenarios

These actions are estimated to reduce contact significantly, allowing the virus to spread at a slower rate, alleviating the burden on the healthcare system and buying time until the threat passes. Measures resemble those implemented in most other countries, but may vary in the future as each country decides to deal with the threat differently. At current knowledge status, scientists speak of the following potential remedies:

- ▶ Development of vaccine in, say, 12-18 months.
- ▶ Development of effective therapy protocol, based on existing (or new) drugs, to deal with acute symptoms and diminish mortality rate. Timing remains uncertain.
- ▶ Herd immunity through infection assuming immunity can last and no mutation.

In view of the uncertainty surrounding potential remedies, health-centric measures are developed with the understanding that the pandemic may last 12-18 months, that is the time needed for a vaccine to be developed and commercialized. Under such a scenario, the Government has the following toolkit at its disposal:

- Varying degrees of lockdown and border control** applied in accordance to the capacity of the health system to accommodate and treat the infected. Notably, relaxation of social distancing measures and travel ban but with a return to lockdown if the number of new cases exceeds a certain threshold. This swinging between the two strategies makes little difference for economic revival and comes at a great cost.
- Upgrading and scale up of antigen (PCR) testing capacity.** This would enable proactive regular PCR testing for large samples of the population to provide a representative view of the spread of the virus. PCR tests produce very few false positives but there is an issue with false negatives resulting from problems with collecting and processing patient samples. They can be used to confirm the infection but are less reliable in confirming its absence. Mass testing is estimated to be possible in 1-3 months.
- Contact tracing.** Testing can be used to identify people who are infected and, with the use of app-enabled (location-based) technology, contact tracing serves to find those people who have come into contact with infected persons so as to monitor/ isolate them.
- Immunity passports with antibody tests.** Large-scale antibody testing, once approved by authorities, can be used to identify those who have had the virus and are therefore potentially immune and can return to work. Private manufacturers have played a role in the development of antibody tests but products still need to be validated by authorities for their reliability. Roll out is estimated at > 3 months.

Health measures and virus control

Possible exit strategies are derived based on the above options and adjusted as the development of scientific remedies plays out. Such strategies vary in effectiveness in terms of how fast the country can begin exit from lockdown and travel ban (part exit) so that the economy can be resuscitated without risking a virus spread that spirals out of control and overwhelms the healthcare capacity.

Malta has to date managed to limit the virus spread and mortality rate from COVID-19 on the basis of effective social distancing measures and largely non-mandatory quarantine rules. Lockdown measures have been adopted only for vulnerable persons.

COVID-19 impact on Tourism

Overview of key considerations and scenarios

Malta Government tourism-related actions

The COVID-19 High Level Working Group, set up by the Ministry for Tourism and Consumer Protection (MTCP), has issued a set of **Operational Guidelines for the Travel and Tourism Sector (March 2020)**. The scope of this document is to present practical advice and recommendations for operators in the tourism industry, including hotels, collective accommodation and transport services, in relation to the COVID-19 situation. The information contained in the document has been approved by the health authorities and addresses feedback received from the industry representatives and other stakeholders. Updating of the document will be undertaken as the situation evolves.

The Malta Tourism Authority (MTA) also launched an online campaign to promote Malta's tourism once the pandemic is over. This current campaign shows prospective tourists the best characteristics of the Maltese Islands to encourage people to travel at a later date. Government is also actively exploring safe travel corridors and travel 'bubbles' that can be tapped once the COVID-19 health issues begin to subside.



Easing of lockdown measures

The Malta Government announced the partial easing of lockdown measures in the beginning of May 2020. As at the time of publishing this report, further discussions on easing of lockdown measures and the development of a recovery plan were underway although no visibility of other sectors that will be eased are currently being communicated. There is also no available information as to the potential reopening timeframe of the Malta International Airport.

To date, new cases have been relatively low with a pattern of limited local transmission cases being reported. In this regard, if the decline of new cases is sustained, health authorities indicated that measures will start being lifted; nonetheless, until a vaccine is found, not all measures may be lifted.

Rapid testing kits will also be made available to a wide range of people. These kits function by taking a small sample of blood, with results being shown almost immediately.

COVID-19 impact on Tourism (cont'd)

Overview of key considerations and scenarios

Economic measures and anticipated recovery

The Maltese Government has acted swiftly and with determination in both containing the virus spread and providing a soft cushion for the economy, for both households and businesses:

Fiscal

Fiscal stimulus packages of a total size of c. €2bn (c. 14% of GDP), which is likely to be revised with new measures and size as the number of actual applicants becomes known. The stimulus includes:

- aid to the health sector in combatting the pandemic;
- loan guarantee product through the Malta Development Bank, in conjunction with commercial banks
- interest rate subsidy scheme;
- wage subsidies for businesses and self-employed persons;
- deferrals of tax payments for income tax, VAT, social security;
- allowances to support quarantined households and individuals unable to work from home;
- credit institutions offering six month moratorium on repayments in exceptional circumstances;
- special unemployment benefits; and
- increases in rent subsidies for unemployed individuals;

Monetary

At a European level, monetary measures include the ECB's Pandemic Emergency Purchase Programme to buy government and corporate debt, removal of issuer limits from bond-buying programmes, Government guarantees for new loans and suspension of loan installments for nine months. The EU's Banking Package also looks into applying greater flexibility in prudential and accounting frameworks, including the release of capital and liquidity buffers for banks, EU leaders also agreed to build a trillion euro emergency fund to help countries and their businesses/ citizens recover from the coronavirus pandemic.

The degree of effectiveness of Government intervention depends on the combination, coordination and concerted implementation of fiscal and Eurozone monetary policy, that is timely, sufficient in magnitude and targeted.

- ▶ **Monetary & fiscal measures.** Sophisticated combination and coordination of monetary and fiscal policies can maximize impact by reinforcing and providing financial backing to each other.
- ▶ **Coordination at Eurozone level.** The extent of quantitative easing, liquidity provision and relaxation of thresholds for banks are decided by the ECB, as are decisions affecting Government debt and financing mechanisms. And while all Eurozone economies are affected, countries like Malta that rely more heavily on tourism are in a more dire situation with respect to the pace of recovery compared to countries with a strong manufacturing sector. Solidarity between Eurozone states will be key in how effective the economic measures are for supporting tourism-dependent countries. In this regard, European states are still discussing how best to align measures to ease lockdowns, what precautions airlines must take for travel to resume, and reimbursement for cancelled trips. At the end of April 2020, European airlines penned a letter to the ministers arguing that social distancing is "neither necessary nor viable on board an aircraft." While travel advice is a national competence, the EU is coordinating various measures with all Member States for a harmonized approach, including recommendations to all Member States on non-essential travel, targeted legislation to alleviate airlines from airport slot usage obligations and ensuring the free movement of freight across the EU.
- ▶ **Timeliness.** Effective measures will curtail bureaucratic procedures and be delivered swiftly to households and corporations, be based on latest scientific evidence, and adaptable as the situation evolves.
- ▶ **Magnitude.** Government to date has announced packages of c. €2bn, that is 14% of 2019 GDP figure (compared to 3% European average), but loss in economic output is set to exceed this number and disproportionately affect different sectors of the economy.
- ▶ **Economy-wide vs. sector-specific.** As some sectors are hit harder by the pandemic, or have different pain points, fiscal stimulus packages targeted specifically to those sectors can be more effective in preventing a high rise in unemployment and permanent contraction of the sector.

COVID-19 impact on Tourism (cont'd)

Overview of key considerations and scenarios

Economic measures and anticipated recovery

Various forecasts for Malta have already been produced. While all are now indicating negative real GDP declining rates for 2020, the magnitude of this drop seems to increase with more recent forecasts.

The IMF released its forecast in mid-April, in which it projected Malta's GDP to shrink by 2.8% in 2020 (compared to a growth of 4.4% in 2019). However, the IMF anticipates that the local economy will rebound strongly in 2021 with a growth rate of 7%.

Malta GDP Growth / (Contraction)	2020 (F)	2021 (P)
Government of Malta	-5.4%	3.9%
EU Commission	-5.8%	6.0%
IMF	-2.8%	7.0%
Fitch Ratings	-5.9%	3.6%
Moody's	-3.8%	3.2%

According to the IMF, unemployment is also expected to rise to 5%, before falling slightly to 4.4% in 2021 compared to the unemployment rate of only 3.4% in 2019. Other estimates that have been published recently adopt a more conservative approach a slower rate of recovery. Estimates prepared by the Government of Malta indicate that the economy will contract sharply in 2020, and will start to recover in 2021 as pent-up demand is unleashed and social measures are unwound. Fitch expects Malta to suffer a sharper contraction in the second quarter of 2020, before recovering slowly in the second half of the year. Fitch stated that hotel occupancy in 2020 is expected to be close to 50% of 2019 levels, with the remaining sectors dependent on tourism to be harshly affected.

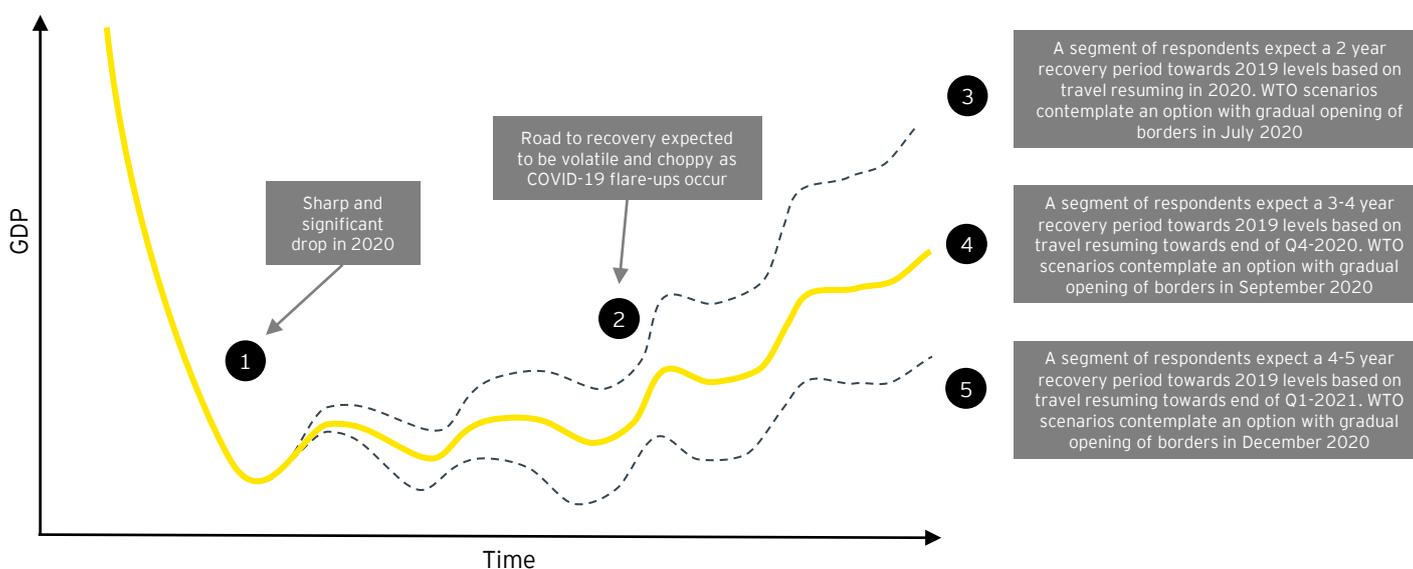
Scenario considerations

The responses gathered as part of our survey note a number of potential scenarios that may affect the duration of the crisis and speed of recovery towards 2019 levels. The perceptions of our respondents are that the recovery can range between 2 to 5 years depending on certain core assumptions. These include:

- ▶ Availability of a COVID-19 vaccine
- ▶ Continued Government support during and after the lockdown period to sustain the sector as a slow ramp up takes place
- ▶ Improvement in the health and economic conditions of Maltese key feeder markets, and new route opportunities being developed

A graphical representation of the feedback obtained is illustrated below, which also makes reference to international tourism 2020 scenarios recently published by WTO.

Graphical representation of respondents' perception around industry recovery



Recommendations

Tourism-related suggestions for the post-COVID era

Below we outline recommendations for the consideration of the different sector stakeholders, such as corporate executives, financial institutions and the Government, in an effort to support the tourism sector in managing the challenges of the COVID-19 crisis and to elicit a constructive discussion. These address ways of responding to the crisis in the shorter term and at accelerating recovery in the medium term once the pandemic is put under control.

Revisiting the Maltese tourism product

- ▶ Global tourism patterns and behaviours are expected to change radically in the coming years. While there is no easy way to shift towards niche tourism segments, stakeholders and authorities can jointly support an initiative to revisit the Maltese offering in a post- COVID-19 reality
- ▶ Aspects such as masterplans for key touristic areas, initiatives to improve the collective level of service quality, educational level, quality of tourism infrastructure and strategic direction that the country needs to take can be developed with a medium to long-term view in order to create a more sustainable form of tourism for the future

Increased efforts in promotion and building market confidence

- ▶ A co-ordinated and effective marketing campaign for Malta as a safe and attractive destination needs to be made bringing together all key stakeholders. Malta can leverage positive health and safety credentials that have emerged as part of the COVID-19 response
- ▶ Maintaining and enhancing relationships with major airlines and tour operators through direct communication at all levels throughout the COVID-19 crisis is key. Travelling routes and frequencies need to be safeguarded to ensure a quicker return to recovery once travelling opportunities restart
- ▶ Industry stakeholders, supported by authorities, may need to consider measures to incentivise travellers through the use of grants, vouchers and offers. Safe travelling routes should be explored with countries that have effectively contained the spread of COVID-19

Government Support

- ▶ The provision of additional medium to long-term visibility around the availability of support measures applicable to the tourism sector may be required in order to support stakeholders' planning efforts to cope with added pressures until the tourism market resumes
- ▶ The temporary introduction of flexible labour laws allowing for reduced working hours or the introduction of other mechanisms for part-time employment (as opposed to redundancies/unemployment) could be explored. Other measures such as compulsory annual leaves in specific months and additional Government support staff training and reskilling may be introduced

Tax Incentives and other fiscal stimuli

Additional areas that could help improve company liquidity and encourage business activity. These would be subject to consideration of State Aid rules and OECD principles as applicable:

- ▶ Extension of VAT reductions for hospitality services subject to EU VAT rules
- ▶ Increasing the generosity of loss carry-forward provisions
- ▶ Tax incentives for investment in technology and sanitization activities during the COVID-19 period
- ▶ Reduction in utility rates, rental costs and bills for companies in the sector
- ▶ Extension of deferral of social security and VAT payments, and 2019 corporate taxes to support cash flows

Sector's Megatrends

Reshaping the Tourism sector in the short to medium term

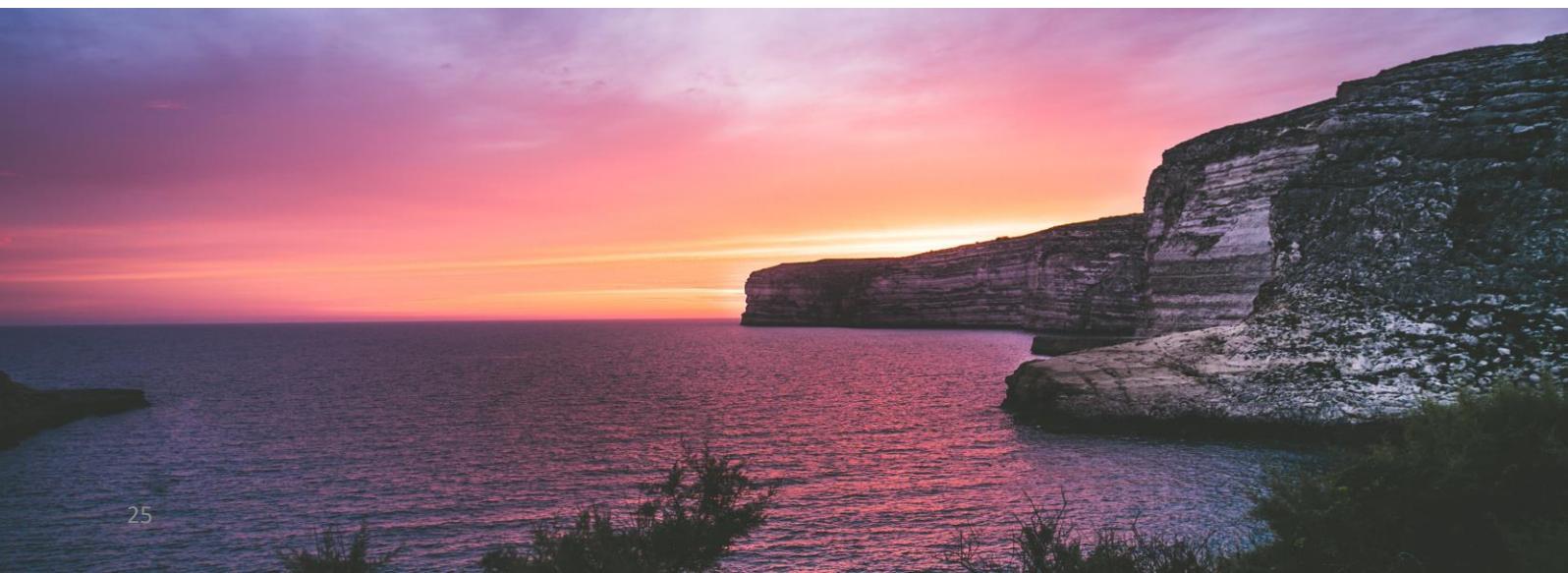
EY has identified the following global travel industry COVID-driven “paradigm shifts” that are expected to influence the local tourism industry in the near term.

- ▶ **Securing a vaccine:** Any COVID-related tourism sector implications are underpinned by the need to find an effective and rapidly available global vaccine. All the other shifts are dependent on this reality.
- ▶ **Shifting to domestic tourism:** International operators are increasingly promoting domestic tourism to mitigate the disruptions in their inbound international travel market. This might be less relevant for a small country.
- ▶ **Increasing passenger expectations:** Visitors will expect and request new hygiene-related protocols and possibly also opt for smaller and less crowded facilities whenever given the choice. These will also increasingly welcome the introduction of contactless services wherever possible.
- ▶ **Reduced purchasing power:** Citizens around the globe who were fuelling the global increase in tourism numbers are witnessing severe reductions in income. This will effect their willingness (and ability) to travel and may stimulate demand for shorter distance travel over longer haul destinations.
- ▶ **Heightened environmental awareness:** Visitors are becoming increasingly aware of their environmental footprint and negative effects of visitors in most tourist destinations.
- ▶ **Transport challenges:** All forms of transport (air and sea and their ancillary facilities) will be affected by new social distancing measures. These are expected to have a large influence on visitors transportation options. Airports, airlines, cruise terminals and cruise liners will be amongst those most badly hit and certain routes and/or fares may not remain viable. This will necessitate re-engineering of various parts of the current transport chains.
- ▶ **Increasing intern/national competition:** Countries are expected to increase their sales and marketing budgets to try to combat the reduction in visitor numbers.
- ▶ **Availability of state support:** Governments are increasingly supportive of the tourism industry as it generates various benefits to the respective national economies. Direct support schemes for businesses are expected to continue as the industry becomes one of the last to open up.
- ▶ **Improved health and safety measures:** Operators will have to adopt additional health and safety measures to attract visitors, and to protect their own employees and citizens of the countries where they operate. Education and training as well as the adoption of new protocols and measures will be indispensable.
- ▶ **Changing tourism segment popularity:** The international tourism industry's range of offerings is being greatly shaken, and it is unclear when certain tourism segments - such as the conference and incentive travel/large groups segments - will recuperate to their pre-COVID levels.



Key Takeaways

- ▶ The current COVID-19 pandemic has led to significant challenges for the whole Maltese economy and its tourism operators. These immediate challenges include **large scale cancellation of existing bookings, the collapse of new reservations, the cessation of revenues and various cash flow pressures**. Hoteliers are currently forecasting **huge reductions in their revenues compared to 2019**.
- ▶ All hoteliers are assuming 2020 to be significantly loss-making, and a recovery is realistically **expected to take between 3 and 4 years**. A lot of uncertainty still remains despite this view being expressed across the board.
- ▶ Hotels have responded to these new challenges in a number of ways including **suspending all their operations, introducing a variety of cost-cutting measures and adjusting their working capital management**. With payroll costs continuing to be hoteliers' largest cost, **large scale redundancies have to date been mitigated as a result of the various Government support measures** that have been rolled out. A prolonged downturn in tourism will be increasingly difficult to sustain unless government support continues post-opening of the sector.
- ▶ **Significant changes in visitor behaviour, spending power and expectations** are predicted by the majority of operators. These include increased hygiene requirements and shift towards less crowded venues.
- ▶ The sector's operators are aware that their sector will be the last to fully open, and are insisting on a **clear medium to long term road map on lockdown reversal** which will also include **clearly defined social distancing regulations and requirements**. Some operations and service offerings will have to be re-engineered or possibly discontinued.
- ▶ Re-establishing route connectivity is an issue, with the sector being unable to survive without the **opening of the national airport and the attraction of airlines and significant number of visitors to Malta** to fill existing and planned bedstock.
- ▶ Aside from the hotels, a number of **other key stakeholders linked to the sector are being negatively effected** including suppliers who are facing severe liquidity pressures.
- ▶ Hoteliers will be readjusting their strategies as any plans for lockdown reversal in Malta (and other countries) are made public. These hotel **plans will need to be updated continuously** in view of a rapidly changing situation in Malta, and in the many geographical markets which feed its tourism industry.

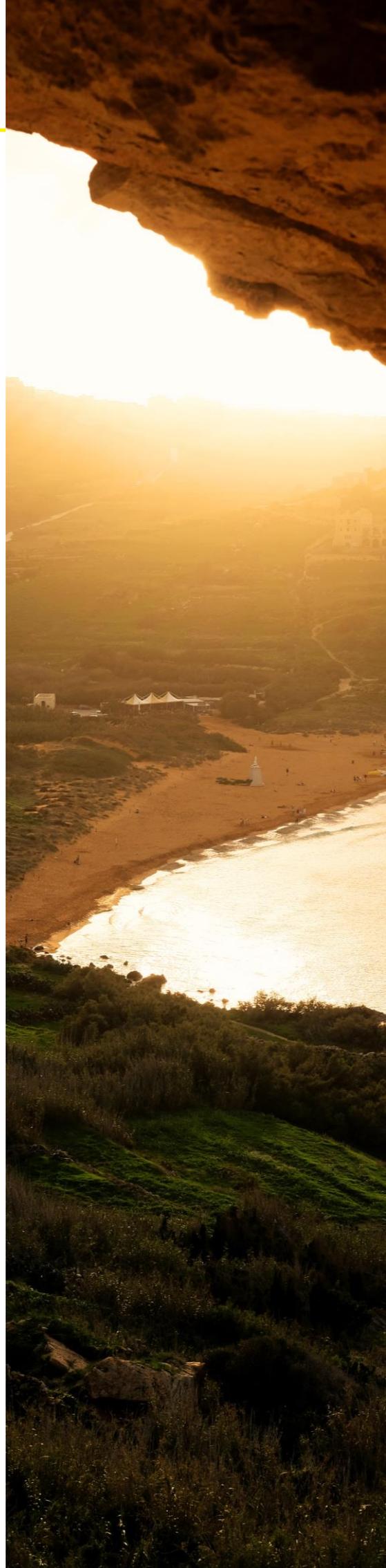


How EY can help

Services that bolster your resolve and reshape your future

 <p>Short-term cash & liquidity management</p> 	<ul style="list-style-type: none"> ▶ Analysis of cash gaps ▶ Identification of quick wins ▶ Dynamic forecasting of cash needs under crisis scenarios and identification of mid-term solutions
 <p>Financing options</p> 	<ul style="list-style-type: none"> ▶ Analysis of financing structure ▶ Identification of alternative options ▶ Securing non-bank / quick financing
 <p>Negotiations with banks</p> 	<ul style="list-style-type: none"> ▶ Advice with bank negotiations ▶ Lenders deck and banking presentation preparation ▶ Preparation of financial projections ▶ Capital structuring
 <p>Independent business review</p> 	<ul style="list-style-type: none"> ▶ Independent Business Review preparation for your lenders, creditors, etc. ▶ Stress testing based on market situation
 <p>Working capital advisory</p> 	<ul style="list-style-type: none"> ▶ Lean organisation and processes optimisation ▶ Supply and demand planning ▶ Assessment of key Working Capital drivers and cash release opportunities
 <p>M&A support</p> 	<ul style="list-style-type: none"> ▶ Divestment advisory ▶ Real-estate sales ▶ Quick direct sale process ▶ Identification of opportunities
 <p>Economic Advisory</p> 	<ul style="list-style-type: none"> ▶ Economic Impact Assessments ▶ Cost-Benefit Analysis ▶ Incentives analysis & planning ▶ Regulatory economics ▶ Competition economics
 <p>Corporate Finance Strategy</p> 	<ul style="list-style-type: none"> ▶ Corporate strategy ▶ Value optimisation ▶ Investment strategy ▶ Feasibility & business planning ▶ Portfolio strategy
 <p>Tourism & Hospitality sector expertise</p> 	<ul style="list-style-type: none"> ▶ Working Capital Management and assessment ▶ Short-term cash flow Advisory ▶ Independent Business Reviews ▶ Application of Government measures ▶ Risk assessment & Scenario planning ▶ Situation monitoring analysis & reporting ▶ Strategy update & Robustness check ▶ Legal topics ▶ Capital raising support / M&A ▶ Transaction support related services ▶ Economic impact assessment ▶ Incentives analysis & planning

Services relevant to:  Government/Regulators  Banks  Businesses



How EY can help (cont'd)



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Ronald's experience includes leading privatization projects as well as other asset sales. He acts as client-serving partner for larger institutions in Malta, including the Government of Malta, local banks as well as family businesses in Malta, and has played a leading role in developing a managed services offering in Malta. Ronald's titles include CPA, FCMA, FCCA and FIA. He graduated from the University of Malta.



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Gilbert has assisted a broad range of public and private sector clients, seeking to structure, invest and develop projects, as well as support on complex transactions and negotiations.



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Chris joined EY in 2006 and has been involved in economic research, business valuations and business modelling, cost-benefit analysis and financial & economic feasibility studies. These projects range across sectors.



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EU Advisory Director
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Simon has more than 25 years of professional experience with local and European business organisations. Simon provides cross-sector EU-project related services and leads the Malta FDI Attractiveness Survey initiative and flagship national event.

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