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**| RESEARCH ARTICLE**

## **Impact of COVID-19 on Philippines Tourism Industry: Macroeconomic and Microeconomic Implications**

**Héritier I. Kalonda**

*PhD. Student, College of Business Administration and Accountancy, De la Salle University-Dasmariñas, Philippines*

**Corresponding Author:** Héritier I. Kalonda, **E-mail:** [khi0072@dlsud.edu.ph](mailto:khi0072@dlsud.edu.ph)

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**| ABSTRACT**

COVID-19 has harmed lives and businesses locally, regionally, and globally, saying worldwide. Before the pandemic, tourism supported the Philippines' unstoppable economic growth. The pandemic slowed it. COVID-19 adversely affected the tourist industry by lowering Global Domestic Product (GDP) and other key macroeconomic and microeconomic indicators. In other words, tourism's decline affected macroeconomics and microeconomics indicators. Covid-19's impact on the tourism sector increased unemployment rate, poverty, household vulnerability due to income loss, and job losses in transportation, travel agencies, tour guides, accommodation, food supply, and other sectors. In short, the fall of the tourism industry affected the economy as a whole, especially in countries like the Philippines that rely on it.

**| KEYWORDS**

Covid-19, Macroeconomic, Microeconomic, Unemployment, Exchange Inflows, Gross Domestic Product

**| ARTICLE INFORMATION**

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### **1. Introduction**

The recently identified coronavirus COVID-19 has affected people's lives and economies on a national, regional, and global scale. The Philippines took swift steps to contain the epidemic, including enhanced community quarantine (ECQ) and created an emergency subsidy program with substantial public spending to assist families and businesses affected by the pandemic. The national capital region and high-risk provinces were under a strict lockdown from the middle of March until the end of May 2020, resulting in enormous economic losses.

The tourist industry in the Philippines, along with overseas Filipino (OF) remittances and business process outsourcing, is a major contribution to the country's positive external payments status and to the country's overall economic growth. It is one of the greatest sources of employment in the country, and in addition to providing opportunities to enterprises and individuals of all stripes, it also contributes to maintaining structural foreign exchange (FX) inflows. Because of the large number of people who work in the tourism sector and the close quarters in which they do so, the industry as a whole has been significantly impacted by the COVID-19 pandemic. The outlook for the business, however, is looking much brighter as a result of expanded mass inoculation and decreasing travel restrictions.

In 2019, travel and tourism contributed 12.7% of the gross domestic product, which is equivalent to approximately \$47.8 billion worth of goods and services. This was before the pandemic began wreaking havoc on the economy. In that same year, the Philippines attracted 8.26 million visitors from other countries, who collectively contributed \$11 billion to the country's economy. Domestic tourism was responsible for generating an additional \$36.6 billion. In terms of employment, the sector was directly liable for the employment of 1.3 million people. Taking all of these factors into consideration, it is difficult to conceive of a scenario in which a total economic recovery can be accomplished in the absence of a full rebound of the tourism industry. The fall of the

tourism industry has affected the economy at both local and national levels in the Philippines. Thus there is a need to study its impacts.

## **2. Methodology**

For this study, both primary and secondary data that are currently available have been used. First, data from the Philippines Statistical Authority (PSA) has been used in this study for accuracy and credibility purposes. A review of some research and personal interviews with some owners of MSMEs has been conducted in order to measure how Covid-19 affected operations in tourism related businesses.

## **3. Economic Problems**

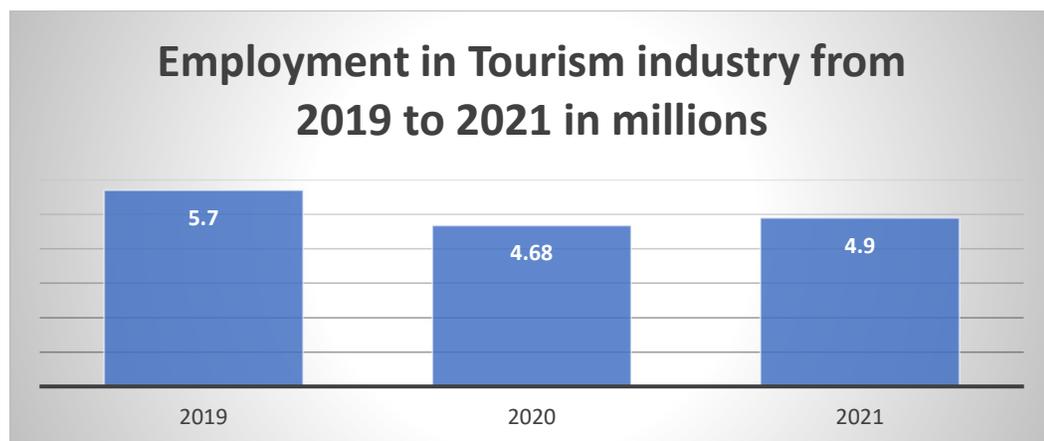
The provision of travel services is one of the most important contributors to the net inflow of foreign currency to the country's balance of payments (BOP). It reflects an average of 15 percent sustained growth over the past decade (from 2010 to 2019, pre-pandemic), accounting for around 20 percent of total services exports (Caynila at. al., 2022). Due to the COVID-19 pandemic, practically all nations, including the Philippines, have closed their territorial borders and instituted tight quarantine measures in an effort to stop the spread of the virus. When demand for vacations and other tourism-related activities dropped suddenly, businesses across the board saw a significant drop in income and an increase in unemployment. Another study (Deoan et al., 2021) found that declining tourism demand, job losses, the rise of online/digital transactions, warning visitors not to stay in hotels that were used as quarantine centers, and enforcing disaster management and control preparedness standards were all significant issues.

The effects of COVID-19 on the tourism industry include but are not limited to reduced employment, reduced income earnings, reduced source of government revenue, lower foreign exchange earnings and lower balance of payment support, a decline in the global gross domestic product (GDP), and deterioration of other essential macroeconomic and microeconomic variables (Shinozaki & Rao, 2021). From this point of view arise, some economic problems will be the core of this research:

- Increased rate of unemployment and increased rate of poverty.
- Losses affected many enterprises, such as hotels and resorts, tour operators, restaurants, spas, and entertainment venues.
- The decline in the GDP
- Lower Foreign exchange inflows

### **3.1. Employment Issue**

It is estimated to be a total of 4.68 million people working in tourism-related sectors in 2020, which is 18.1% fewer than the 5.7 million people employed in these industries in 2019. The hospitality and tourist industry was responsible for around 11.9% of the total employment in the country. The tourism industry as a whole accounted for 1.87 million jobs, making up 39.9% of the total, while the passenger transport sector was responsible for the majority of those jobs. This is followed by Accommodation, Food and Beverage, which accounts for 31.4%, Miscellaneous, which accounts for 15.3%, Retail Trade on Tourism Characteristic Goods, which accounts for 7.6%; and Recreation, Entertainment, and Cultural Services, which accounts for 4.9%. (PSA, 2020)



**Source: Philippine Statistics Authority(PSA)**

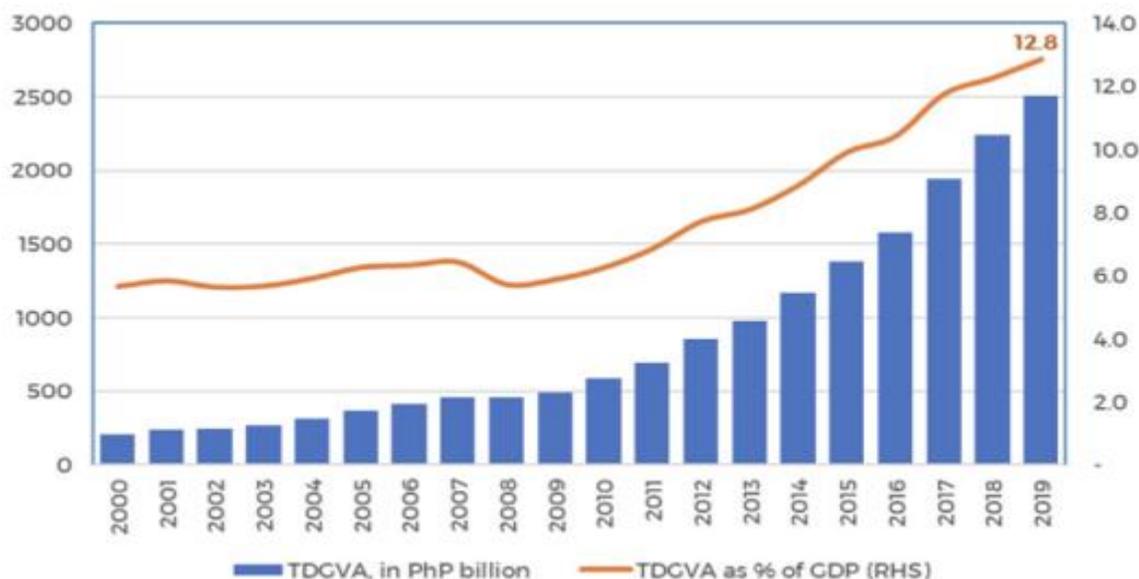
The table shows that employment in the tourism industry was affected by the impact of Covid-19. This affected overall employment in the country, which led to an increased rate of unemployment. Almost 12% of the Philippine labor force is directly or indirectly involved in the tourism industry. The pandemic cost the Filipino tourist industry nearly 30% of its employees last year. This sector

suffered the most. Tourism lost four times more jobs than other industries. Tourism workers worked two to seven times less than other workers(PSA,2021).

A few months after the 2022 elections, the new government of the Philippines eased the restrictions in many sectors implying MSMEs. This has helped the Philippine economy to enter the recovery phase, but micro, small, and medium-sized enterprises (MSMEs) related to the tourism sector continue to endure a severe fall in demand and revenues. There is a need to improve policy so that the recovery stage may reach the pre-pandemic level.

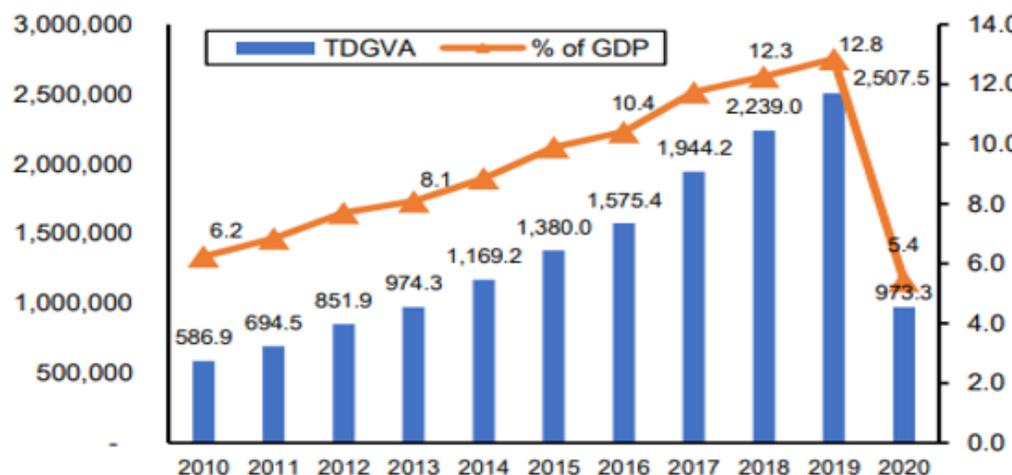
**3.2. Tourism's Contribution to the national economy of the Philippines**

Before the pandemic, the tourism industry was one of the primary contributors to the Philippines' continuous economic growth. This growth was disrupted by the pandemic. A roughly fivefold rise in the country's tourist direct gross value added at current prices can be attributed to growth over the past decade. In 2008, it was worth 460 billion pesos, which was equivalent to 5.7 percent of the GDP. In 2019, it was worth 2.5 trillion pesos, which was equivalent to 12.8 percent of the GDP (PSA, 2022).



Source: Philippines Statistics Authority(PSA)

The TDGVA from tourism fell to P973.3 billion in 2020 from P2.5 trillion in 2019, a drop of 61.2%. This followed 11 years of uninterrupted growth. According to the Philippine Statistical Authority, "Tourism Direct Gross Value Added" (TDGVA) is the "gross value added" produced by the sectors of the economy that service tourists directly. Nevertheless, in 2020 the TDGVA share of GDP dropped to 5.4%, lower than the 5.6% seen in both 2000 and 2002(PSA,2021).



Source: Philippines Statistics Authority(PSA)

Confirming the impact of tourism on economic growth, previous research (Scarlett, 2021) has revealed that tourism significantly contributes to economic growth. When using tourism receipts as a metric of tourism rather than tourist arrivals per capita, the linear model predicts a 50% larger positive effect on growth. Higher levels of tourism specialization are found to have a negative impact on growth when the non-linear specification is taken into account. Nonetheless, a rise in tourist expenditure has a beneficial impact on economic growth on all fronts.

**3.3. Vulnerability of households**

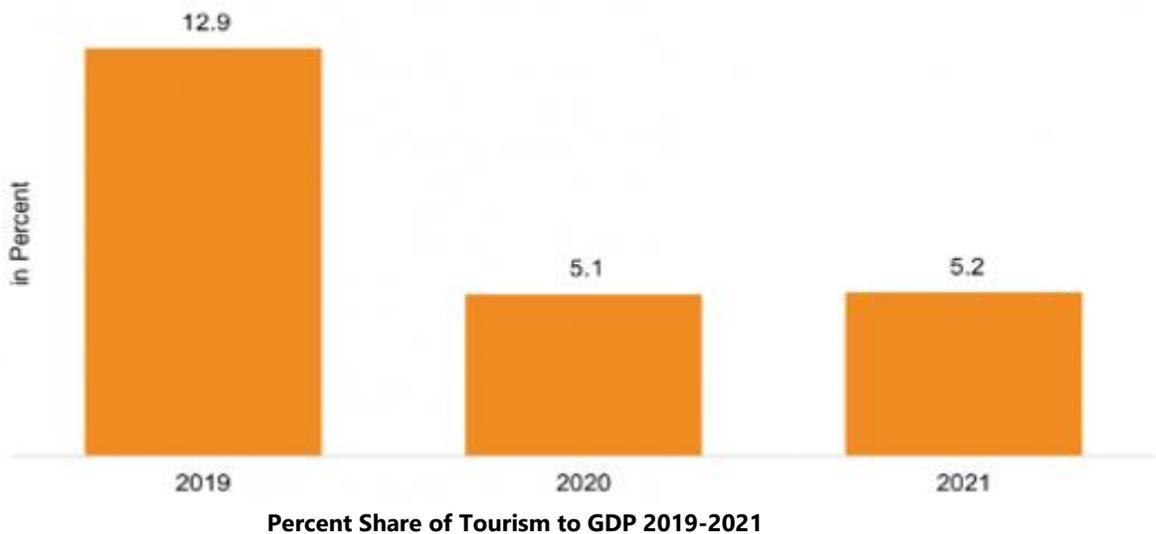
Having members of the household who earn income and are workers affected by the closure of business premises as a result of the ECQ makes households more susceptible to the risk of falling into income poverty. Tourism employees can be portrayed as precarious workers whose employment is defined as being of a short-term, seasonal, or casual nature or workers who work for different employers on a day-to-day or week-to-week basis. According to PSA (2020), before the COVID-19 pandemic, about 5.7 million people in the Philippines were employed in the Tourism industry. In 2020 up to 50% lost their jobs. From this point of view, the overall employment rate in the country was drastically reduced, which resulted in the vulnerability of households in the country.

With the purpose of assisting individuals and businesses in reducing the consequences of COVID-19, the House of Representatives of the Philippines approved House Bill 6815, also known as the Projected Philippine Economic Stimulus Act (PESA), in June 2020. After the law is ratified and signed into force, an economic stimulus package totalling PHP1.3 trillion will be provided over the following four years to pay for COVID-19 testing, wage subsidies, and assistance to MSMEs. The bill's provisions provide for a total of PHP 58 billion in funding for some programs for DOT-approved tourism businesses. This shows how the government is aware of the contribution of the tourism industry to the country's overall economy.

**3.4. Decline in GDP**

As reported by PSA (2022), Tourism Direct Gross Value Added (TDGVA), as measured by Gross Domestic Product (GDP), contributed 5.2% to the Philippine economy in 2021. In 2021, the TDGVA amounted to PhP. 1,001.30 billion, a 9.2 percent increase from PhP 917.20 billion in 2020. This is still less than its contribution in 2019 or prior to the Covid-19 pandemic.

See the below table for an illustration.



**3.5 Foreign exchange inflows**

The Philippines government imposed travel restrictions in early March 2020 and measures in response to the pandemic, which had a significant negative impact on the country's tourism industry. According to data from the Philippines Statistics Authority (2022), in 2020, the country saw a decline of almost 80 percent in revenue from international tourists, and in 2021 that decline was closer to 90 percent. From 8.3 million in 2019, only 1.5 million were expected to visit in 2020, leading to travel revenue of \$1.6 billion (down from \$9.3 billion). A drop of 89 percent from 2020 levels to 2021 levels, from 1.5 million tourists to 163,879, is a reflection of this dismal trend in the tourism industry. The resulting \$171 million in tourism revenue is down 89 percent from the \$1.6 billion seen in 2020.

**4. Conclusion**

As discussed, the tourism industry was one of the most affected industries by the COVID-19 pandemic. As a consequence, several macroeconomic and microeconomic implications arose from the fall of the tourism industry. Following consequences arose from the impact of covid-19 on the tourism industry; the unemployment rate rose to 10.4%, increase rate of poverty, loss of income

resulted in the vulnerability of households, and loss of job opportunities in all industries related to tourism industry such as transportation, travel agencies, tour guides, hostelry, food supply, etc.

In short, the COVID-19 pandemic has harmed all economic sectors worldwide. Travel restrictions and border closures hurt global travel and the tourism industry, having different implications in different nations (World Tourism Organization, 2020). Travel and tourism affect other sectors of the economy, especially in tourism-dependent countries like the Philippines. At the beginning of 2021, the economy of the Philippines began making the transition into the recovery stage gradually. On the other hand, the general climate of the business world has not yet adjusted; the precipitous decline in demand and revenue continues in the tourism industry due to some restrictions related to covid-19.

The following recommendation may help to boost the tourism industry back to the pre-pandemic level so that its contribution to the overall economy may help for the recovery of the Philippines economy.

#### 4.1 Recommendations

- Tourism employees and businesses will need help from the government to recover and maintain assets.
- The government will need to provide loans with low interest to the majority of SMEs related to the tourism industry as they need the funds to meet their requirements for working capital, marketing funds to restore their brands, and refinancing after the pandemic
- Grants for education training and advising of tourism stakeholders for new normal alternative livelihood programs
- To lessen the negative impact that COVID-19 will have on the tourism industry, which has a significant impact on the overall country's economy, the government should enact policies that encourage the development of other pertinent initiatives, such as those pertaining to infrastructure.
- The government would do well to formulate policies that would make credit facilities available for upgrading, rehabilitation, or modernization of existing establishments or facilities in order to bring them into conformity with updated health and safety requirements.
- The Department of Tourism should revisit its National Tourism Development Plan (NTDP) (2022-2027) to reflect the changes that the epidemic has caused in the industry.
- When guiding their economies through the recovery phase of the tourism industry in the wake of COVID-19, policymakers should approach with prudence to ensure a successful outcome.
- Infrastructure development: being an archipelago heavily reliant on air and sea travel to attract visitors, the Philippines must ensure that its airports and seaports are ready to fulfill the needs of both international and domestic visitors in the post-pandemic era of contactless operations.

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