TOURISM SECTOR IN SPAIN HIT BY DECLINING POUND STERLING

The current debate about Brexit without agreement is closely watched by the tourism experts of many countries, Spain including. If passed, Brexit is likely to depreciate the value of the UK pound and affect the tourism sector in Spain. The UK is the third market of importance for Spanish exports of goods and services, only behind France and Germany. Any decline in British purchases of Spanish goods would significantly impact the Spanish economy.

Although Brexit without an agreement has not been passed, the situation resulted in a declining pound. **The currency has already depreciated 6.8% against the euro since the annual highs it reached in April.** As soon as Boris Johnson ruled out any type of extension, the pound has again suffered a significant decline. The depreciation and future exchange rates after an exit without an agreement can jeopardize the 38,746 million euros (in goods and services) that the British buy from Spain.

Out of this amount, 18,977 million represent the export of goods, while the rest are exports of services, among which tourism services stand out, representing about 32% of all exports, according to ICEX data. As far as goods are concerned, Spain has a surplus (exports minus imports) of 7,528 million euros.

The tourism sector in Spain may be the most affected industry in case of hard Brexit and the declining pound.

As the National Institute of Statistics revealed, the British are still the engine that keeps the tourism sector active in Spain, leading the arrivals so far this year with 10.5 million, but the truth is that it's already a small decrease compared to the previous year's data. Even so, they are still the tourists who spent the most until June with more than 10,200 million euros.

To understand how a Brexit without agreement (and, therefore, the fall of the pound) would affect the spending decisions of the British, it is good to look at the cost of a double beer in Spain a few months before the referendum and its current cost. Before June 2016, an English tourist paid around 1.9 pounds (assuming beer costs 2.8 euros) for a beer and today the same tourist would have to pay around 2.6 pounds for the same beer. The consumption of beer in Spain now costs them 35% more than in 2016, without considering the increase in inflation during those years. That amount, which in beer might seem acceptable, could also have been transferred to the cost of overnight stays and other tourist services.

This increase in relative prices for British tourists can erode the expenditure of these consumers in Spain, at best, or invite the tourist to choose a more attractive destination (such as Turkey, taking advantage of the sinking lyre) in the worst-case scenario.

As ICEX pointed out, as far as services are concerned, the United Kingdom is the first market for Spanish tourist services, followed by France and Germany. The exports of tourist services represent 30.4% of the total Spanish exports. Tourism revenues from the United Kingdom have still increased by 2.8% in 2018, according to data from the Bank of Spain, reaching 12,666 million euros in 2018.

The information of the ICEX emphasizes that "The United Kingdom continued being in 2018, by far, the main issuing market, with more than 18.5 million travelers. But the figure represents a fall of 1.6% in relation to the record of the previous year".

This drop-in visits by British travelers could be closely related to the recovery of rival destinations (and which are substitutes for Spain) such as Turkey and Egypt, to which international tour operators have begun to divert European travelers after years of insecurity in that region before the rise of terrorism and the overthrow of governments that had been in power for years.

A fall in British travelers and their spending can directly impact the employment in the tourism sector in Spain, which is a crucial industry for the country, not only because of its size, but also because it has 'sheltered' a part of the unemployed. The tourism sector today has about 2.7 million employees.

For all these reasons, the General Council of Economists (CGE) estimates that a Brexit without an agreement could cost Spanish GDP about 0.9 percentage points, while an orderly exit with trade agreements would reduce the cost to about 0.5 percentage points.

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