

# TOURISM RECOVERY IN LATIN AMERICA - A POSITIVE OUTLOOK



variants.

One of the hardest hit sectors during the pandemic was tourism. Quarantines, restrictions and isolations paralyzed it. Thousands of planes were grounded, while hotel rooms and convention centers remained empty. However, the tourism recovery started globally, but with deep scars and threats of cost increases due to widespread inflation around the world and the emergence of new covid-19

What's next for the sector? Moody's agency analyzed the outlook for tourism in the near future including the regions of Latin America and the Caribbean.

According to the firm, pent-up tourism demand offers good prospects for Latin American and the Caribbean travel-related sectors in 2022 and beyond. Despite an uneven and persistent tourism recovery and the unknown implications of the omicron variant, **a revived demand for travel to the region will persist through 2022, with infection rates in the region declining by November 2021 and vaccinations accelerating in major markets.**

This outlook will keep investments solid for lodging companies and cruise operators in the Latin America and Caribbean region as full capacity is expected to return by 2024. Beach resorts at luxury all-inclusive coastal resorts in Mexico and the Caribbean are leading the recovery, but competition in the region will stiffen from 2022 and the following years.

The easing of travel restrictions everywhere else, including Canada and the UK, will further accelerate tourism during the winter of early 2022. Growth is expected to accelerate for airlines operating in Latin America and the Caribbean by 2022. Airlines have increased direct flights, with more routes connecting European cities with tourist destinations in Latin America and the Caribbean.

Most of the airlines operating in this region, as a result of the pandemic, have more efficient operations today than before the onset of covid-19 by migrating to the low-cost model and cutting costs substantially during the crisis. They are now poised to accelerate growth amid the positive demand in 2022.

Europe begins to ease the travel restrictions, and new European or Latin American airline flights emerge linking Latin American and Caribbean tourist destinations with European cities.

Amid the lack of government support in the region, several full-service Latin American airlines filed for U.S. Chapter 11 in 2020, but continued to operate and have recovered at a slow pace, including Colombia's Avianca Group International Limited, Aeromexico and Chile-based Latam. Aeromexico is preparing its reorganization plan, while Latam already presented it.

In the case of Avianca, the report warns, "Although small, it gets competitive operating margins as the travel demand recovers. The company plans to operate a point-to-point route system to connect major Latin American cities, aggressively pricing fares through low unit costs and focusing more on complementary services."

**The growing rate of vaccination in Brazil will help low-cost airlines such as Azul and Gol, but they will need cash to fund recovery and deferred payments during the pandemic.**

Despite the outlook, Moody's believes that, in the vast majority of cases, traffic levels will not return to 2019 levels until 2023-24. The strength and speed of tourism recovery will depend on the duration of travel restrictions which may be extended or reintroduced thanks to new coronavirus variants and varying vaccination rates.

From a funding perspective, Latin American banks' limited exposure to tourism will be manageable and a steady rebound would reduce the lending costs. The recovery in tourism will reduce the risk of future problem loans and new provisioning needs, but an increase in infections would increase loan delinquencies and force governments to extend support beyond 2022.

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