

Context

The past year has been tumultuous for the travel sector worldwide: bookings for future travel, made in January 2021, decreased by 70% compared with the previous year³.

Nevertheless, in May 2021, Moody's upgraded its outlook for the global airlines industry to 'positive' from 'negative'.⁴ In October 2020, Boeing stated it expected its global fleet to reach 48,400 by 2039, representing a mere 4% downward adjustment from its 20-year forecast released before the pandemic.

Its principal rival, Airbus Group, predicts a similar long-term expansion, on course for a total global fleet of 44,860 by 2038.⁵ Meanwhile, Emirates Airline has stated that during 2020, the airline successfully restructured various aircraft leases and loans, testifying to aviation lessors' and financing partners' confidence in Emirates' business model, and mid-to-longer term prospects.⁶ Indeed, in 2020, Emirates was the largest international airline, carrying over 15.8 million passengers.⁷

The Middle East: poised for recovery

Revenue passenger kilometers (RPK) in 2020 plummeted by 72% year-on-year in the Middle East, compared with 66% globally.⁸ Short-haul leisure travel is expected to be the first to improve⁹ due to huge demand from the middle-income segment.¹⁰ This may be tempered by the fact that, except for Saudi Arabia, most aviation markets in the Middle East have little access to a domestic market, which could somewhat hinder their recovery.

In March 2021, passenger traffic slightly increased in the region, although industry-wide revenue passenger-kilometers (RPKs) were 67.2% lower compared with pre-crisis levels (March 2019).¹¹ Middle Eastern markets are expected to return to 96% of pre-crisis levels in the second half of 2021, a 48% improvement over 2020.¹²

There are two categories of airline that are likely to thrive amidst these turbulent times. One is the full-service network airline offering long and short haul routes, which also cater to the domestic market. The other is nimble, low-cost carriers flying a range of regional routes.¹³

The question remains what airlines in the Middle East are going to do with all the aircraft they have: currently 1,300 in service.¹⁴ They also have an equal number of aircraft orders, many of them negotiated at pre-pandemic rates. Nearly 50% are owned aircraft and 50% are leased. Multiple airlines worldwide have defaulted on lease payments due to the impact of the pandemic on their businesses.¹⁵ And a significant amount of time has been spent in 2020 managing lease defaults, though

it appears lessors are taking a pragmatic view towards defaulting lessees. Generally, it has been accepted that there is little point repossessing aircraft that cannot be remarketed—a global dilemma.

As many airlines are restructuring their fleet, some of the larger aircraft are unlikely to return to the skies for a while. This explains, for example, why most of the Boeing 777s are still flying whereas many Airbus 380s may be regarded as potentially less efficient. Oman Air has announced it will reduce its fleet by nearly half.¹⁶ Etihad Airways is restructuring itself to becoming a mid-sized, full-service carrier,¹⁷ while some airlines have already sent their aircraft to long-term storage outside the Middle East.

Spotlight on the UAE

The UAE's air carriers may be restricted by continued travel restrictions, especially on some of the routes to emerging economies served from the country.¹⁸ The pandemic has also put a dent in potential flyers' spending capacity, a trend likely to continue for some time.

However, local leaders are hopeful for the future. Saif Al Suwaidi, Director General, UAE General Civil Aviation Authority (GCAA), said signs are pointing to significant air travel demand in the second half of 2021 and sustainable recovery in air operations.¹⁹ This may partly be due to the increased influx of UAE visitors due to Expo 2020 (running from October 2021 to March 2022), which was originally predicted to draw 25 million visitors pre-pandemic. However, the CEO of Dubai's Department of Tourism and Commerce Marketing,

Issam Kazim, cautioned in May 2021 that it was important to be "realistic" about the number of visitors attending the Expo 2020 later this year due to the impact of Covid-19.²⁰

Nevertheless, while the speed of recovery may be uneven, industry forecasts generally assume that leisure demand will eventually return to pre-Covid-19 levels, in late 2021 to 2022.²¹

The UAE government has been proactive in coming to the aid of its country's airlines, for instance injecting USD 3.1bn of equity into Emirates Airline, as of June 2021.²² Moreover, the country's airports appear to have fared better than their international counterparts. Last year, Dubai International Airport (DXB) was ranked third in the world for influx of international passengers.²³





Emerging stronger

Overall economic conditions are improving, which is likely to directly boost air travel demand. The Central Bank of the UAE (CBUAE) expects to see full economic recovery in 2022, with growth rising to 3.5%.²⁴

The UAE has opened quarantine-free travel corridors for the fully vaccinated. For everyone else (other than India), all visitors over the age of 12 must have medical insurance and a negative PCR test completed within the past 72 hours by a nationally recognized body. On 17 May this year, Dubai also lifted

its limited-capacity rules for hotels, meaning they can be booked to 100%. Public gatherings, such as concerts and sporting events, can also take place at up to 70% capacity for vaccinated people.²⁵

As of August 2021, 74% of the UAE's population, and 16% of the world's, had been fully vaccinated. Slowly but surely, we believe the pace of market recovery will pick up as global health organizations continue to exert every effort to battle the virus.²⁶