

ANALYSIS OF LEBANON'S TRAVEL & TOURISM SECTOR



TABLE OF CONTENTS

Travel & Tourism Contribution to the Economy	3
Travel & Tourism Contribution to GDP	3
Travel & Tourism Contribution to Employment	4
Travel & Tourism Sector	5
Beirut International Airport Passengers	5
Total Tourist Arrivals	6
Tourist Arrivals by Region	7
Arab Tourist Arrivals	9
Tourists Spending	11
VAT Refunds	12
Hotels Performance	13
Travel and Tourism Competitiveness Index	16

TRAVEL & TOURISM CONTRIBUTION TO THE ECONOMY

TRAVEL & TOURISM CONTRIBUTION TO GDP

The travel & tourism sector constitutes one of the main growth engines in the Lebanese economy, and its impact on GDP is significant. According to World Travel & Tourism Council, the contribution of the travel & tourism sector to GDP is classified into direct contribution and indirect contribution. Direct sector contribution includes visitor exports, domestic expenditures, internal tourism consumption, and purchases by tourism providers. On the other hand, indirect sector contribution encompasses domestic supply chain, capital investment, government collective spending on tourism, and imported goods for indirect spending.

The year 2010 witnessed an upsurge in tourism activity with the travel & tourism sector's contribution to GDP in Lebanon increasing by 21.7%. However, the upward trend was reversed in 2011, recording a 0.7% decline in travel & tourism sector's contribution to GDP. In that year the increase in indirect contribution (+0.48%) was offset by the decrease in direct contribution (-2.7%), leading to a drop in the sector's contribution to USD 10.6 billion. However, the sector recovered in the following two years with its contribution amounting to USD 12.1 billion in 2013, going up by 5.3% from the previous year. During that year, while direct contribution dropped by 23.3%, the 21.3% increase in indirect contribution led to the overall improvement witnessed in the sector. This rise is mainly attributed to the increased spending by displaced Syrian nationals.

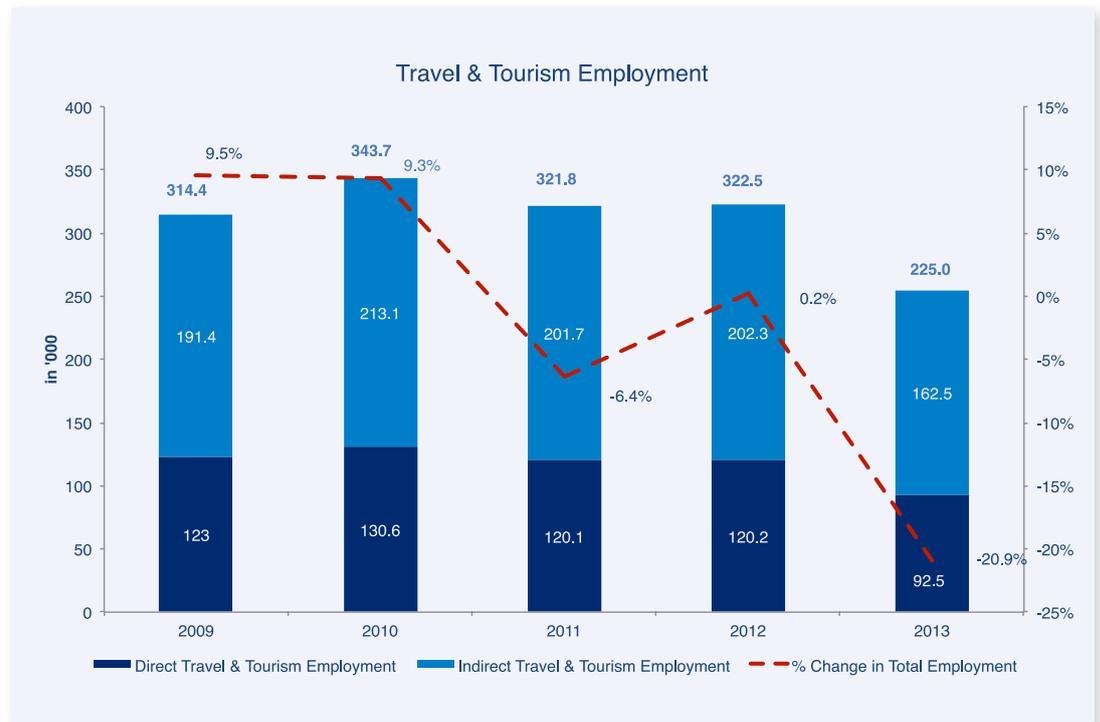
After travel & tourism sector's share of GDP increased gradually from 24% in 2008 to 29% in 2010, the sector's share of GDP plunged during the past three years. During 2011, travel & tourism activity dropped to 27% of GDP and further declined to 25% in 2012. The deterioration continued in 2013 with the travel and tourism sector constituting a share of only 19% of GDP. This indicates a falling dimension of the travel & tourism sector in the economy, as Lebanon witnessed domestic political tension and a shaky security situation.



TRAVEL & TOURISM CONTRIBUTION TO THE ECONOMY

TRAVEL & TOURISM CONTRIBUTION TO EMPLOYMENT

According to the World Travel & Tourism Council, total employment in the travel & tourism sector is classified into direct and indirect employment, corresponding with direct and indirect sector contribution. The number of employees in the travel and tourism sector revived during the period 2009-2010 after having witnessed a 5.4% decline during the year 2008. A further 9.3% year-on-year rise in the sector's employment was witnessed in 2010, reaching 343,700 employees, of which 130,600 employees worked in the direct travel & tourism sector, while 213,100 employees worked in the indirect sector. Nevertheless, the year 2011 saw a severe 6.4% drop in total travel and tourism employment. The year 2012 then witnessed a modest 0.2% rise in travel & tourism employment where the number of employees reached 322,500. However, as the tourism sector was severely hit by the domestic and regional instability, total employment in tourism dropped by a steep 20.9% in 2013. In fact, both direct and indirect employment witnessed 23.3% and 19.6% drops respectively. This in turn was translated into higher levels of unemployment in the country as the tourism sector is considered a major employer in Lebanon.



Source: World Travel & Tourism Council, Travel & Tourism Economic Impact 2014

TRAVEL & TOURISM SECTOR

BEIRUT INTERNATIONAL AIRPORT PASSENGERS

During the year 2009, the number of passengers at Beirut International Airport increased by 22% to reach 4.98 million passengers, of which 2.49 million were arriving passengers and 2.46 million were departing passengers. The number of passengers at Beirut International Airport continued to increase, yet at a slower rate during the period 2010-2013. During 2010, the number of passengers increased by 11%, while the year 2011 saw a slight 2% rise in the number of passengers, which totaled 5.65 million passengers. During the years 2012 and 2013, Lebanon's travel sector managed to record a positive growth in the number of passengers, which rose by 5% in each year to reach 6.3 million passengers in 2013. As for the first seven months of 2014, the total number of airport passengers remained almost stable when compared with the same period of 2013. However, while the number of arrivals increased by 5.3%, the number of departures declined by 4.5%, hence resulting in the stable number of airport passengers.

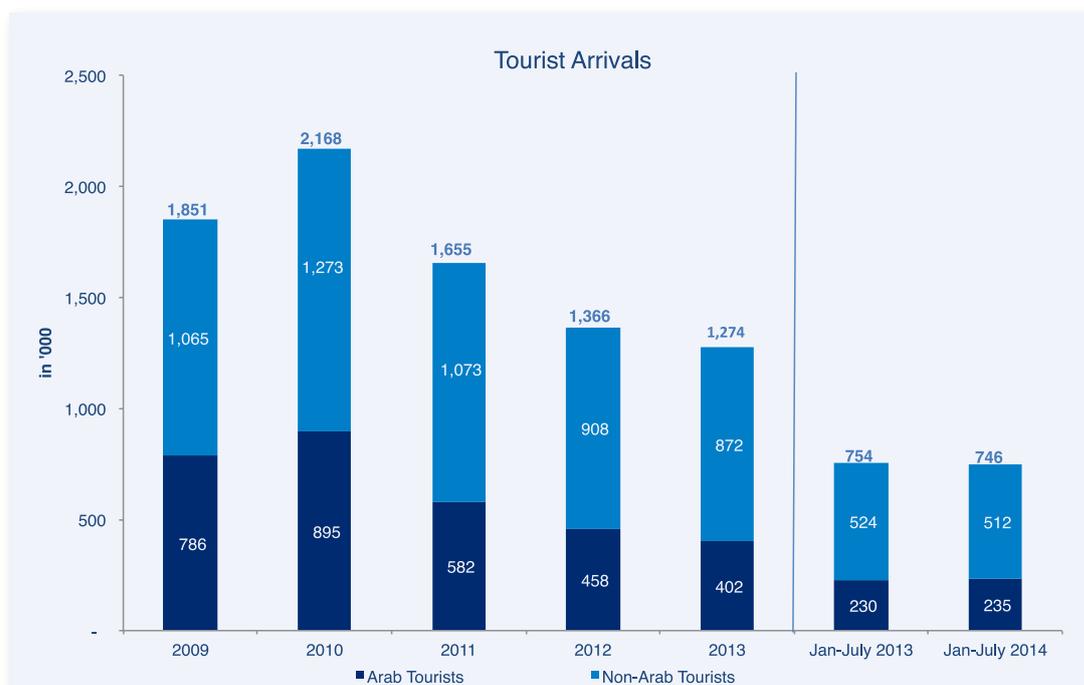


TRAVEL & TOURISM SECTOR

TOTAL TOURIST ARRIVALS

During the year 2009, tourist arrivals rose by 39% to reach 1.85 million tourists, of which 0.786 million were Arab tourists and 1.06 million were non-Arab tourists. Total tourist arrivals continued to increase yet at a slower rate during the year 2010. In fact, tourist arrivals increased by 17% to reach 2.17 million tourists, where Arab and Non-Arab tourists rose by 13.8% and 19.5% respectively. However, the years 2011, 2012, and 2013 recorded negative tourist arrivals growth. During 2011, tourist arrivals plunged by a remarkable 24% to reach 1.66 million tourists. This decline is attributed to a severe 35% decline in Arab tourists coupled with a 15.7% drop in non-Arab tourists. The falling trend continued through 2012 where tourist arrivals fell by 17%, reaching 1.37 million. Specifically, the number of Arab tourists further plunged by 21.3% to reach 0.46 million tourists, while the number of non-Arab tourists dropped by 15.3% reaching 0.9 million tourists. In 2013, the tourism sector lost about 92,000 additional tourists, where Arab tourists declined by 56,000 (-12.2%) and non-Arab tourists dropped by 36,000 (-3.9%). Several factors have contributed to this decline including: the block of land passage points for Arab tourists crossing to Lebanon, violent incidents and internal clashes in the country, and non-Arab perception of increased danger in the Middle East. Hence, the deterioration in Lebanon's tourism sector comes as a direct result of the instable political situation in Lebanon as well as social unrest and insecurity in neighboring countries.

As the local and domestic political situation failed to unravel in the first seven months of 2014, the number of tourists coming to Lebanon dropped by 1.1% year-on-year to reach 746,456 tourists in the first seven months of 2014. Specifically, while the number of Arab tourists coming to Lebanon witnessed a slight 2.3% rise to reach 234,815 tourists in January-July 2014, the number of non-Arab tourist arrivals dropped by 2.4% to 511,641 tourists during the same period. This continued decline shows how Lebanon, especially given its service-oriented economy, remains highly sensitive to the changes and uncertainties that are overwhelming the region.



Source: Ministry of Tourism

TRAVEL & TOURISM SECTOR

TOURIST ARRIVALS BY REGION

With the economy flourishing in 2010, tourist arrivals from most regions increased, with the highest increases recorded in tourists from Africa (41.5%), tourists from Europe (21.2%), and tourists from Arab countries (13.8%). However, the years 2011-2013 witnessed declines in tourist arrivals from most regions. While tourists coming from Africa rose by an average annual rate of 20.4% during that period, Asian tourists dropped by 29.9%. Furthermore, Arab tourists fell by 22.8% during 2011-2013 to reach 402,080 tourists in 2013, European tourists fell by an average annual rate of 7.4%, during the same period, and American tourists declined by 5.5%.

The first seven months of 2014 witnessed year-on-year decline in tourist arrivals from Europe. European tourists fell by 2.9% during January-July 2014 to reach 255,628 tourists. On the other hand, Arab tourists slightly revived after three consecutive years of declines, revealing possible recovery as travel bans imposed by most Arab countries were lifted. In fact, Arab tourists rose by 2.3% year-on-year to record 234,815 tourists in the first seven months of 2014. Likewise, American tourists expanded by 6.2% in January-July 2014 to reach 132,929 tourists.

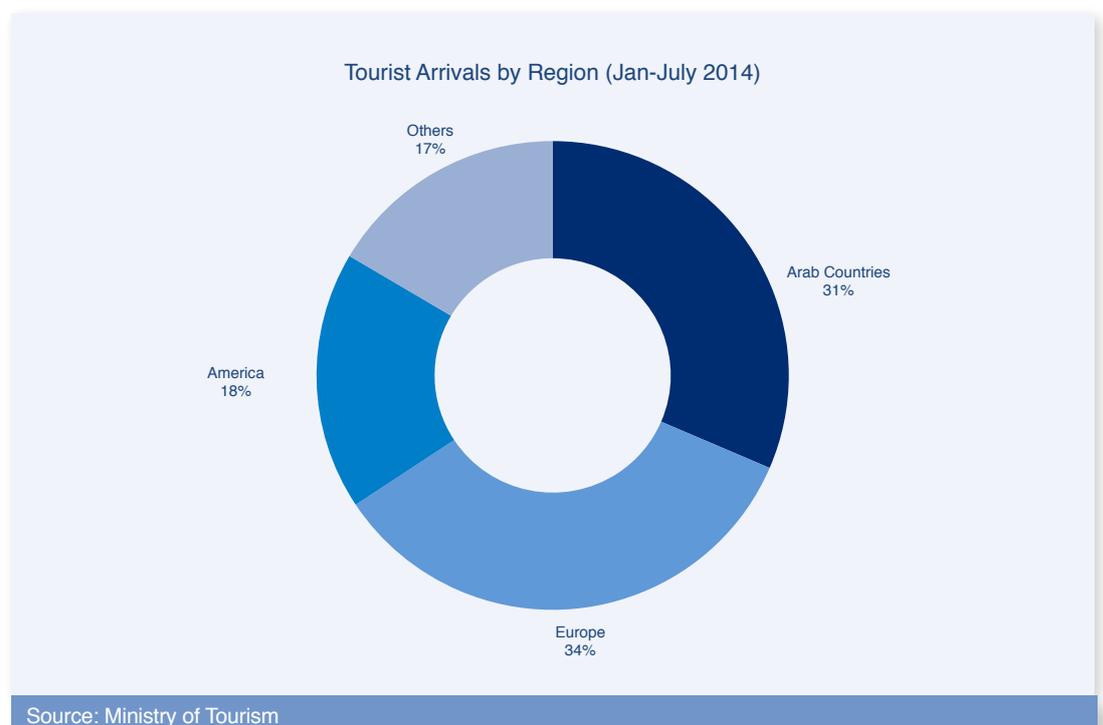
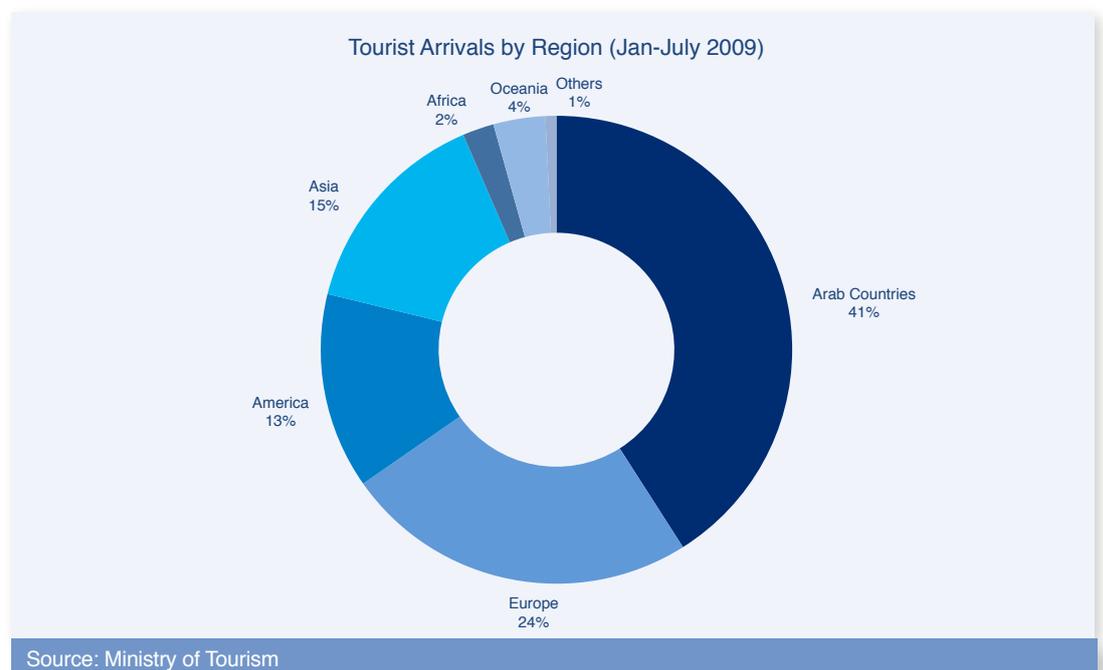
Tourist Arrivals by Region							
	2009	2010	2011	2012	2013	Jan-July 2013	Jan-July 2014
Arab Countries	785,985	894,724	581,597	458,069	402,080	229,605	234,815
<i>% Change</i>	<i>43.0%</i>	<i>13.8%</i>	<i>-35.0%</i>	<i>-21.2%</i>	<i>-12.2%</i>		<i>2.3%</i>
Europe	453,522	549,481	485,707	444,824	433,990	263,329	255,628
<i>% Change</i>	<i>30.5%</i>	<i>21.2%</i>	<i>-11.6%</i>	<i>-8.4%</i>	<i>-2.4%</i>		<i>-2.9%</i>
America	232,694	248,726	222,671	221,174	209,580	125,173	132,929
<i>% Change</i>	<i>31.7%</i>	<i>6.9%</i>	<i>-10.5%</i>	<i>-0.7%</i>	<i>-5.2%</i>		<i>6.2%</i>
Asia	264,021	373,481	245,462	127,290	117,693	N/A	N/A
<i>% Change</i>	<i>45.9%</i>	<i>41.5%</i>	<i>-34.3%</i>	<i>-48.1%</i>	<i>-7.5%</i>		
Africa	41,341	39,399	61,319	61,263	64,792	N/A	N/A
<i>% Change</i>	<i>21.1%</i>	<i>-4.7%</i>	<i>55.6%</i>	<i>-0.1%</i>	<i>5.8%</i>		
Oceania	64,059	60,433	56,386	51,892	45,168	N/A	N/A
<i>% Change</i>	<i>51.5%</i>	<i>-5.7%</i>	<i>-6.7%</i>	<i>-8.0%</i>	<i>-13.0%</i>		
Others	8,855	1,736	1,909	1,333	1,059	N/A	N/A
<i>% Change</i>	<i>489.5%</i>	<i>-80.4%</i>	<i>10.0%</i>	<i>-30.2%</i>	<i>-20.6%</i>		

Source: Ministry of Tourism

TRAVEL & TOURISM SECTOR

TOURIST ARRIVALS BY REGION

Over the period 2009-2014, tourist arrivals from Arab countries as a share of total tourist arrivals declined from 41% in January-July 2009 to 31% in the same period of 2014. This comes as a consequence of several interacting factors including Lebanon's deteriorating stability and security, Arab countries economic, social and political difficulties, as well as travel warnings issued during the abovementioned period. Concurrently, tourists coming from Europe witnessed a rise in their share of total tourist arrivals from 24% in January-July 2009 to 34% in the first seven months of 2014. Likewise, the share of tourist arrivals from America out of total tourist arrivals expanded over the aforementioned period, from 13% in the first seven months of 2009 to 18% in the same period of 2014.



TRAVEL & TOURISM SECTOR

ARAB TOURIST ARRIVALS

With the tourism sector flourishing in 2010, Arab tourist arrivals from most countries increased, with the highest increases recorded in tourists from Iraq (27.9%), tourists from Jordan (22.7%), and tourists from Egypt (18.1%). However, the year 2011 witnessed declines in Arab tourist arrivals from all regions. Tourists coming from Jordan dropped by a significant 52.8% to reach 129,640 tourists, tourist arrivals from Saudi Arabia decreased by 41.5% to reach 111,701 tourists, while those coming from Kuwait saw a 35.6% decline to reach 61,756 tourists in 2011. The year 2012 witnessed further deterioration in the number of Arab tourist arrivals from most countries. Tourists from UAE dropped by a significant 44.7%, reaching 17,742 tourists, while tourist arrivals from each of Saudi Arabia and Kuwait saw a 35% decline, recording 72,658 tourists and 40,121 tourists respectively. The falling number of Arab tourists continued to characterize Lebanon's tourism sector in 2013. In particular, as Gulf countries issued travel warnings during that year in light of the unstable security situation in Lebanon, tourists coming from Saudi Arabia dropped by 43.6%. Likewise Jordanian tourists declined by 12.4%, while tourists coming from Iraq remained unaffected by the local shaky environment and saw an 11.8% increase.

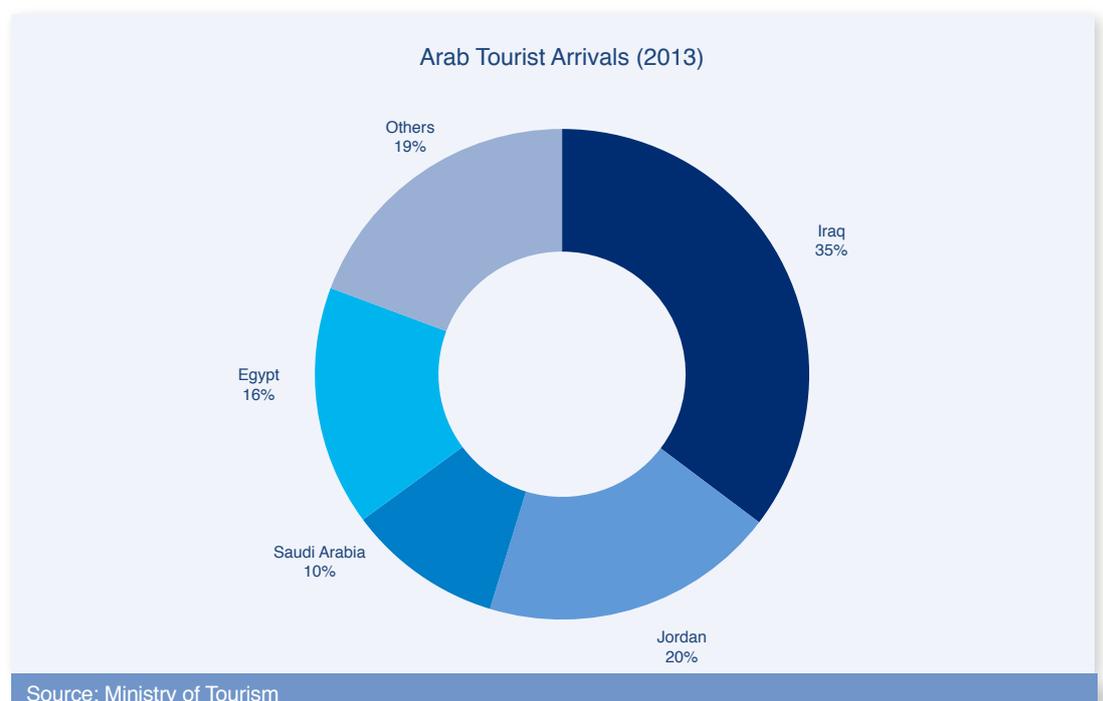
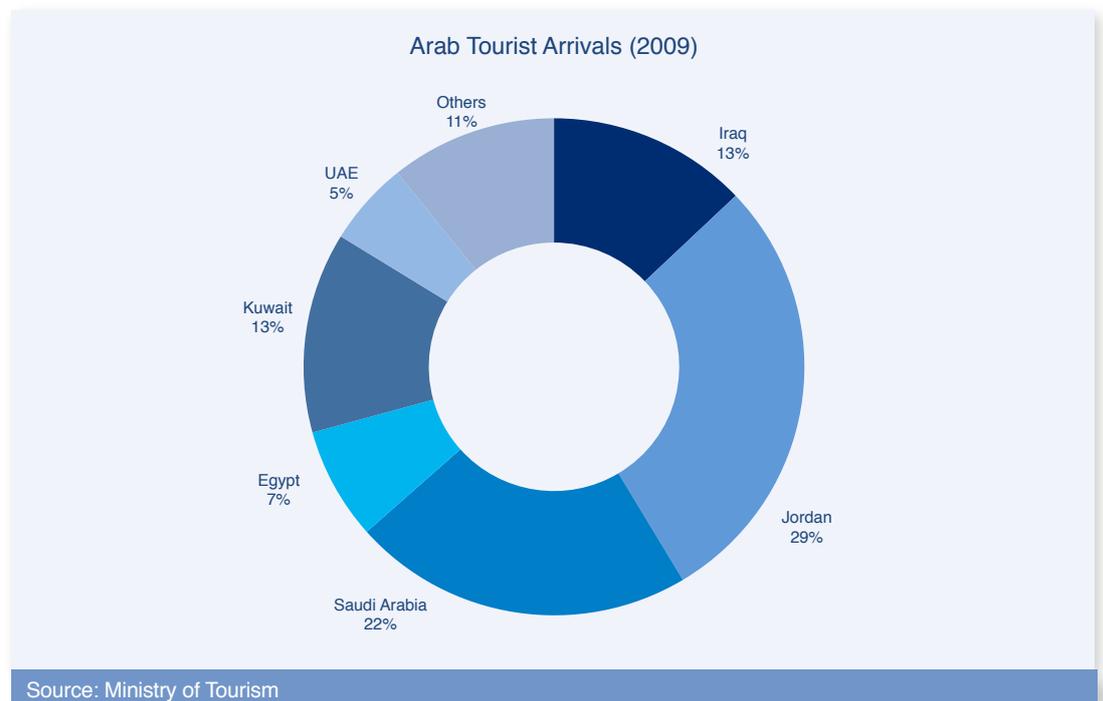
Arab Tourist Arrivals by Country					
	2009	2010	2011	2012	2013
Iraq	101,561	129,847	129,294	126,982	141,987
% Change	39.5%	27.9%	-0.4%	-1.8%	11.8%
Jordan	223,793	274,615	129,640	89,100	78,018
% Change	23.7%	22.7%	-52.8%	-31.3%	-12.4%
Saudi Arabia	173,294	191,066	111,701	72,658	40,958
% Change	70.3%	10.3%	-41.5%	-35.0%	-43.6%
Egypt	57,379	67,773	62,825	64,017	63,578
% Change	37.7%	18.1%	-7.3%	1.9%	-0.7%
Kuwait	102,537	95,824	61,756	40,121	N/A
% Change	48.7%	-6.5%	-35.6%	-35.0%	
UAE	42,974	46,923	32,058	17,742	N/A
% Change	74.2%	9.2%	-31.7%	-44.7%	
Others	84,447	88,676	54,323	47,449	N/A
% Change	43.7%	5.0%	-38.7%	-12.7%	

Source: Ministry of Tourism

TRAVEL & TOURISM SECTOR

ARAB TOURIST ARRIVALS

Over the period 2009-2013, Arab tourist arrivals from Jordan as a share of total Arab tourist arrivals declined from 29% in 2009 to 20% in 2013. Concurrently, tourists coming from Saudi Arabia witnessed a severe decline in their share of total Arab tourist arrivals from 22% in 2009 to 10% in 2013. Hence, tourists coming from the Gulf region have been significantly affected by Lebanon's instable political and security climates. On the other hand, the share of Iraqi tourists increased from 13% in 2009 to 35% in 2013. As for tourists coming from Egypt, their share also increased by 9 percentage points to reach 16% in 2013.



TRAVEL & TOURISM SECTOR

TOURISTS SPENDING

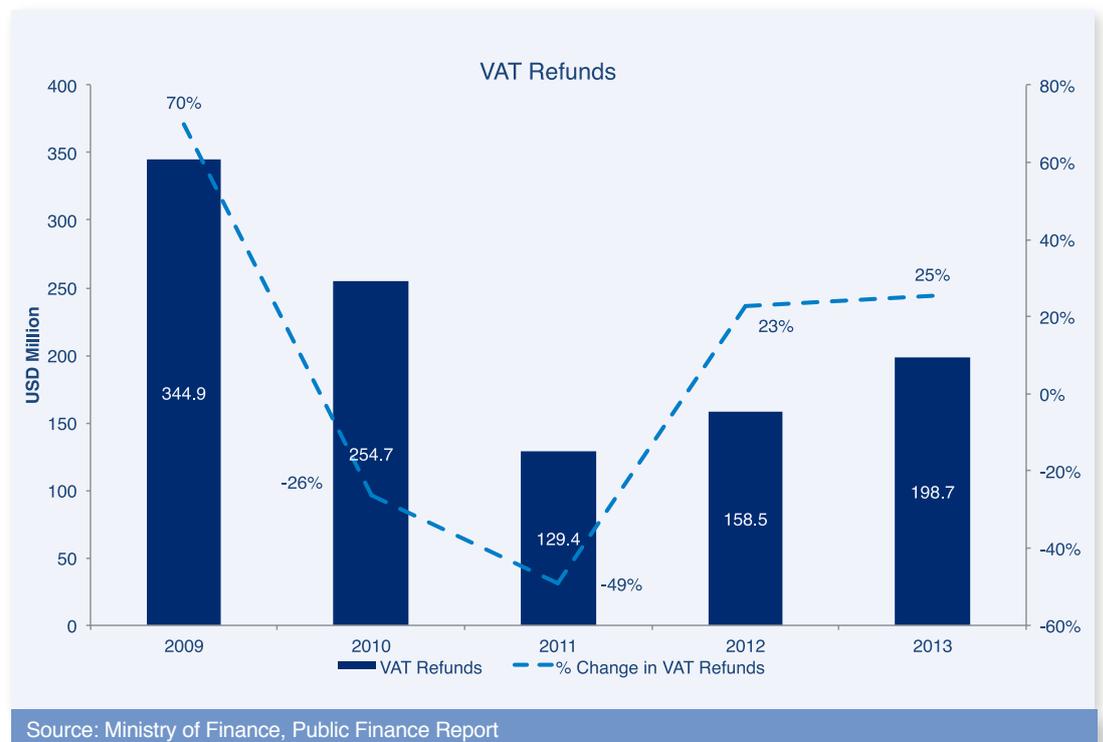
Over the period 2008-2010, tourism expenditures have increased by a compounded average annual growth rate of 27%, from USD 1,326 million in 2008 to USD 2,129 million in 2010. Hence, tourists spending as a percentage of GDP rose over the same period from 4.4% in 2008 to 5.7% in 2010. However, with the rising internal tension and exacerbating regional turmoil, tourists spending fell by 5.8% during 2011, constituting a lower 5% share of GDP. As the domestic and regional scenes worsened in 2012 and 2013, tourists spending was heavily impacted. In fact, tourism expenditures are estimated to have totaled USD 1,693 million during 2013, falling by 8.9% from the previous year. Concurrently, tourists spending as a percentage of GDP dropped to 3.8% in 2013.



TRAVEL & TOURISM SECTOR

VAT REFUNDS

One proxy for the level of tourism activity is VAT refunds at Beirut International Airport. During the year 2008, VAT refunds increased by 53% year-on-year, totaling USD 203 million. As tourism activity revived in 2009, a remarkable 70% increase in VAT refunds was witnessed, peaking at USD 344.9 million. In 2010, VAT refunds totaled USD 254.7 million, dropping down by 26% from the previous year and reflecting a necessary correction. However, with slowing tourism activity in 2011 due to political and regional instability, VAT refunds dropped by a significant 49% to reach USD 129.4 million. VAT refund then increased in 2012 and 2013 by an average annual rate of 24% to reach USD 198.7 million in 2013, reflecting the fact that more tax refund transactions took place at departure during that year. However, VAT refund remained below 2008-2010 levels as tourism activity remained sluggish.



TRAVEL & TOURISM SECTOR

HOTELS PERFORMANCE

During 2009, hotel occupancy rate increased to 73%, rising up from 55% in the previous year. This increase came as a direct result of the return to political and security stability contributing to rising tourist arrivals, which was translated into a higher hotel occupancy rate. However, hotel occupancy rates witnessed a declining trend during the past four years. In fact, hotel occupancy rate fell from 68% in 2010 to 51% in 2013. The notable drag in tourism activity was carried through the first half of 2014 due to continued security threats. Thus, hotel occupancy rate deteriorated 8 percentage points year-on-year to reach 50% in January-June 2014, recording the lowest rate since 2007.



Source: Ernst & Young Middle East Hotel Benchmark Survey

On a monthly basis, hotel occupancy rate had been fluctuating over the past year but witnessed a remarkable improvement since March 2014. In fact, hotel occupancy rate consistently increased from 41% in March 2014 to 67% in June 2014.

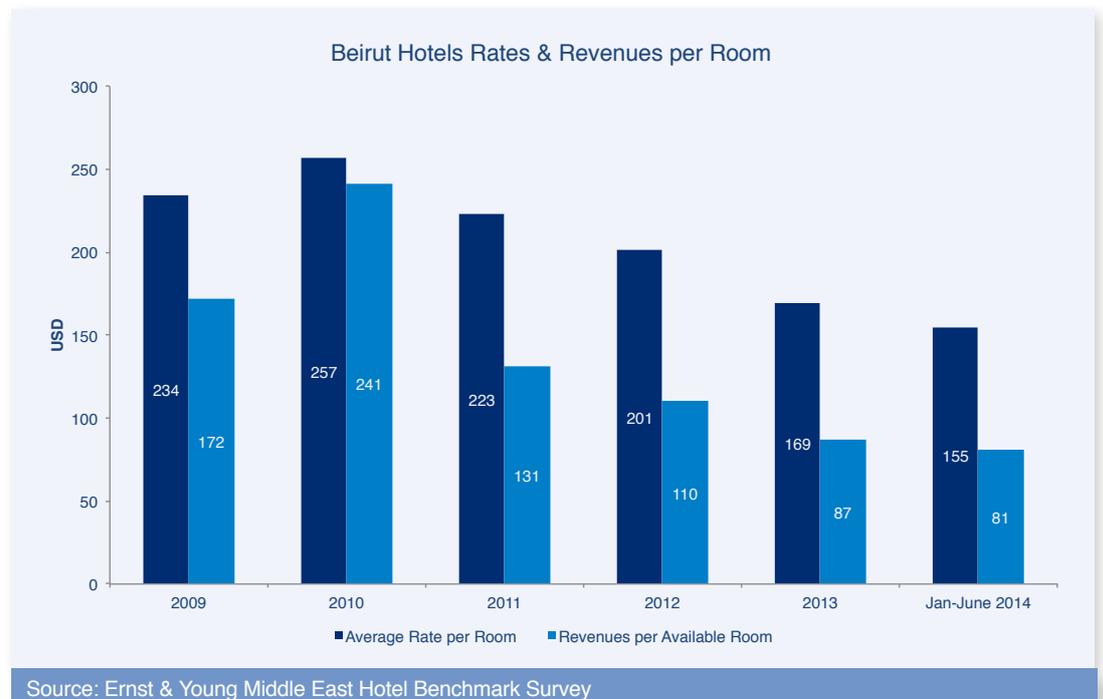


Source: Ernst & Young Middle East Hotel Benchmark Survey

TRAVEL & TOURISM SECTOR

HOTELS PERFORMANCE

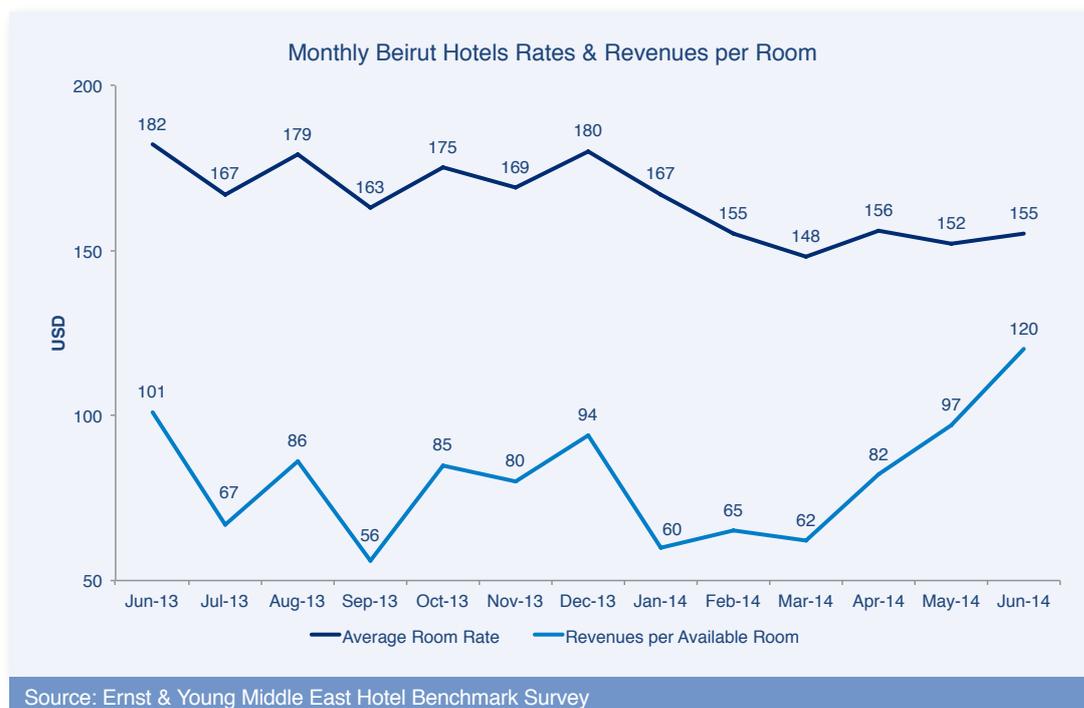
With the Lebanese economy witnessing high growth over the period 2008-2010, average room rate at Beirut hotels increased gradually to reach USD 257 in 2010. This is attributed to the improvement witnessed in the tourism sector's performance over the period 2008-2010, which led to increased demand on hotel rooms and pressured room rates to surge. Likewise, revenues per available room peaked at USD 241 in 2010, went up by 134% since 2008. However, with slowing tourism activity and falling hotel occupancy in 2011 and 2012, average rate per room responded to the declining demand, dropping down to USD 201 in 2012. Hence, revenues per available room declined by 32% to reach USD 110. The deterioration of the tourism sector in 2013 and the first half of 2014 exerted further downward pressure on hotel room rates which fell to an average of USD 155 in January-June 2014. As a result, revenues per available room dropped to USD 81 during the same period.



TRAVEL & TOURISM SECTOR

HOTELS PERFORMANCE

On a monthly basis, as hotel occupancy recovered in March-June 2014 and average room rate followed, rising from USD 148 in March 2014 to USD 155 in June 2014. Likewise, revenues per available room witnessed monthly increases and recorded USD 120 in June 2014, going up from USD 62 in March 2014.



In the context of regional hotel performance, while most cities witnessed improvements in hotel occupancy rate in January-May 2014, Beirut saw a deterioration in its hotel occupancy rate hence showing greater vulnerability to regional developments. Furthermore, after Beirut hotels' average room rate had been higher than the rate in each of Amman and Cairo, its average room rate declined severely to exceed only the rate in Cairo. In terms of room yield, Beirut hotels recorded higher revenues per available room in January-May 2014 than Cairo only but lower revenues per room than all other neighboring cities.

	Occupancy (%)		Average Room Rate (USD)		Revenues per Room (USD)	
	Jan-May 2013	Jan-May 2014	Jan-May 2013	Jan-May 2014	Jan-May 2013	Jan-May 2014
Dubai	87%	85%	296	309	259	265
Abu Dhabi	82%	82%	225	210	185	174
Jeddah	77%	78%	248	268	192	209
Riyadh	66%	73%	225	219	149	161
Doha	67%	72%	243	236	165	172
Amman	61%	65%	157	164	96	107
Beirut	58%	46%	169	155	99	73
Cairo	29%	28%	84	80	25	23

Source: Ernst & Young Middle East Hotel Benchmark Survey

TRAVEL AND TOURISM COMPETITIVENESS INDEX

The Travel and Tourism Competitiveness Index, published by the World Economic Forum, is a measurement of the factors that make it attractive to develop business in the travel and tourism industry of individual countries, rather than a measure of a country attractiveness as a tourist destination. Selected nations are ranked according to the index, which scores from 1 to 6 the performance of a given country in each specific sub-index. The overall index is made of 14 pillars which make up three main sub-indices: (1) regulatory framework; (2) business environment and infrastructure; and (3) human, cultural, and natural resources.

In 2013, Lebanon ranked in 69th position among 140 countries on the Travel and Tourism Competitiveness index and in 7th position among 13 Arab countries. Globally, Lebanon's travel and tourism sector is said to be more competitive than that of Indonesia and Morocco but less competitive than Georgia and Romania. In the region, Lebanon's travel and tourism sector was more competitive than that of Egypt, Kuwait, and Algeria but less competitive than that of UAE, Qatar, and Jordan. Lebanon's score was 4.04 points, almost the same as its score in 2011 (4.03 points), slightly lower than the global average of 4.09, but higher than the Arab average of 3.9.

Travel and Tourism Competitiveness Index

Country	Overall Score	Arab Rank	Global Rank
UAE	4.86	1	28
Qatar	4.49	2	41
Bahrain	4.30	3	55
Oman	4.29	4	57
Jordan	4.18	5	60
Saudi Arabia	4.17	6	62
Lebanon	4.04	7	69
Morocco	4.03	8	71
Egypt	3.88	9	85
Kuwait	3.61	10	101
Algeria	3.07	11	132
Yemen	2.96	12	133
Mauritania	2.91	13	134

Source: Travel and Tourism Competitiveness Index Report 2013

TRAVEL AND TOURISM COMPETITIVENESS INDEX

The report indicated that Lebanon has the highest affinity for travel and tourism in the world, with tourism accounting for a significant portion of economic activity in the country, a very positive attitude towards travelers, and an appreciation of the value of the country's attributed for tourism. It also argued that the country has several cultural attributes, such as the five World Heritage cultural sites (Anjar, Baalbeck, Byblos, Qadisha, and Tyre) and other creative industries. Additionally, while Lebanon's tourism infrastructure is well-developed (ranks 27th on the Tourism Infrastructure pillar), there is a need to improve ground transport infrastructure (ranks 110th on the Ground Transport Infrastructure pillar) and the overall safety and security of the country (ranks 116th on the Safety and Security pillar). Moreover, policy rules and regulations must be strengthened (ranks 115th on the Policy Rules and Regulations pillar) in order to better support the development of the tourism sector.

		Lebanon's Ranking by		
		Pillar	Sub-index	TTCI
Regulatory Framework	Policy Rules and Regulations	115	73	69
	Environmental Sustainability	127		
	Safety and Security	116		
	Health and Hygiene	33		
	Prioritization of Travel and Tourism	38		
Business Environment & Infrastructure	Air Transport Infrastructure	67	65	
	Ground Transport Infrastructure	110		
	Tourism Infrastructure	27		
	ICT Infrastructure	84		
	Price Competitiveness in Tourism Industry	68		
Human, Cultural, Natural Resources	Human Resources	64	70	
	Affinity for Travel and Tourism	1		
	Natural Resources	136		
	Cultural Resources	68		

Source: Travel and Tourism Competitiveness Index Report 2013

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