ECONOMIC Bulletin

YEAR 2011

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Report - Lebanon's Economic Performance in 2011

Study - Implications of the Arab Spring on the Arab Region: An Outlook for the Lebanese Economy

Lebanon's Economic Performance in 2011

Executive Summary

The Lebanese economy has shown a slowdown in 2011 relative to 2010, due to regional turmoil in several Arab countries, amidst growing domestic political tensions. Lebanon's major economic indicators are presented in the following:

- Construction permits decreased by **6.81%**.
- The number of real-estate sales transactions decreased by **11.91%**.
- The number of tourists decreased by **24.00%**.
- The number of passengers at the Hariri International Airport (HIA) grew by **1.90%**.
- The amount of cleared checks increased by **4.95%**.
- The fiscal deficit decreased by **31.81%** in the first eleven months.
- The net public debt increased by **3.02%**.
- Inflation rose by **4.77%**.
- The Central Bank's gross foreign currency denominated (FX) assets increased by **5.36%** to USD 32.24 billion.
- The banking sector's total assets grew by **9.07%** to USD 140.60 billion.
- Market capitalization of Beirut Stock Exchange (BSE) fell by **18.90%** to USD 10.30 billion.
- The trade deficit widened by **16.06%**.
- Capital inflows dropped by **18.23%** to USD 13.90 billion.
- The balance of payments recorded a deficit of **USD 2 billion**.
- Economic growth is estimated at **2.50% in 2011** and is forecasted at **4.50% in 2012** according to the ESCWA estimates.
- Economic growth is estimated at **2.00% in 2011** and is forecasted at **3.50% in 2012** according to the International Monetary Fund (IMF) estimates.

I. General Introduction

In general, the Lebanese economy has witnessed a relative slowdown in its economic activity during 2011 relative to the last year.

This is shown by the slowdown in most of its main indicators of the real sector, such as construction permits (-6.81%), number of property sales (-11.91%), number of tourists (-24.00%), number of ships via Beirut port (-5.20%), customs receipts (-21.05%), hotel occupancy (-11.00%), car sales (-2.86%), and SMEs loans (-2.60%).

In parallel, inflation rose by 4.77% during the same period, coupled by surging net public debt (3.02%), and trade deficit (16.06%), while the fiscal deficit has declined (-31.81%).

Also, the total trading volume at BSE decreased by 52.90%, coupled by lower capital inflows (-18.23%), and a deficit of USD 2 billion in the balance of payments.

Moreover, the Central Bank's foreign-currency denominated assets grew by 5.36% to USD 32.24 billion at end of 2011, while consolidated assets of the banking sector grew by 9.07% to USD 140.60 billion during the same period.

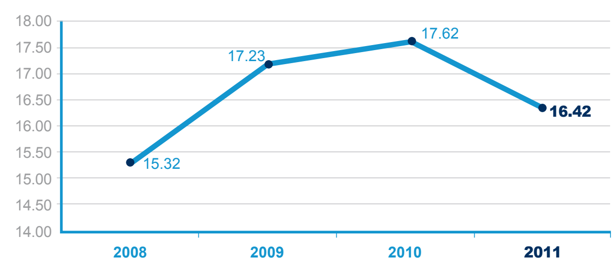
The ESCWA revised Lebanon's real GDP growth to be at 4.50% in 2012, up from 2.50% in 2011. Whereas, the International Monetary Fund (IMF) estimated Lebanon's real GDP growth to be at 3.50% in 2012, up from 2.00% in 2011.

II. Real Sector

1- Construction and Real Estate

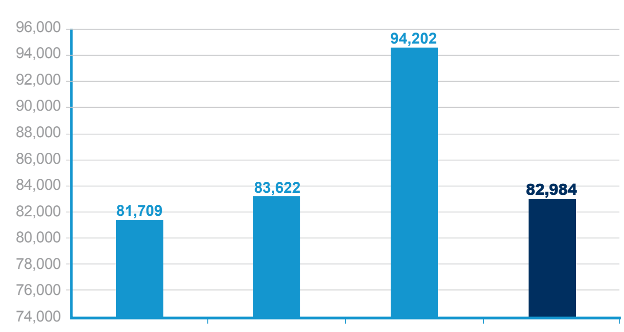
Based on the figures released by the Order of Engineers of Beirut and Tripoli, the construction permits totaled 16.42 million square meters in 2011, a decrease of 6.81% from 17.62 million square meters in the same period of the previous year. Mount Lebanon accounted for 61.10% of the total construction permits, followed by South Lebanon with 11.80%, Beirut with 9.60%, Bekaa with 8.70% and North Lebanon with 8.80%.

- Construction Permits (Square meters, million) **-**



Moreover, the number of sales transactions has decreased by 11.91%, to reach an amount of 82,984 transactions in 2011, as compared to 94,202 transactions in 2010.

- Number of Sales Transactions -

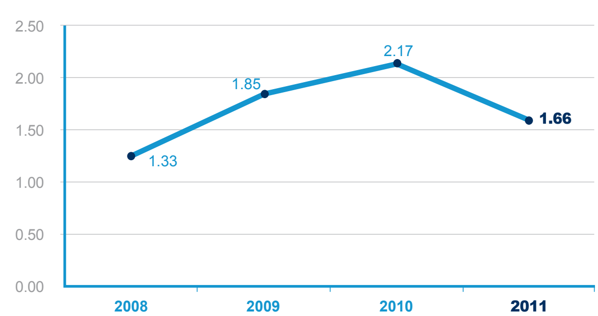


2- Tourism

According to the figures released by the Ministry of Tourism, the number of tourists visiting Lebanon decreased by 24.00% in 2011 reaching 1,655,051 as compared to 2,177,699 in 2010.

As for the distribution of tourists by countries, it shows that the greater part of visitors were from Arab countries with 35.00% of aggregate visitors, followed by visitors from Europe with 29.40%, visitors from Asia with 15.30%, visitors from the Americas with 13.50%, visitors from Africa with 3.50%., and visitors from Oceania with 3.30%.

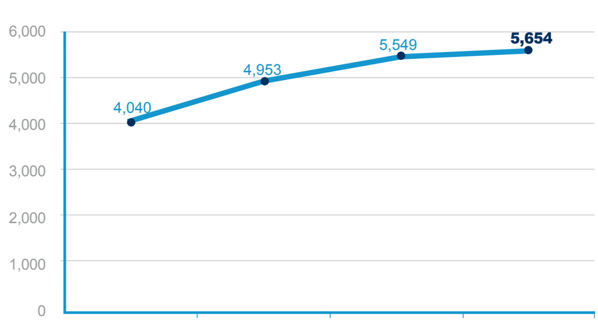
- Number of Tourists -
(million)



3- Airport Activity

Based on the figures released by the Hariri International Airport (HIA), the number of airport passengers amounted to 5,654,752 in 2011, an increase of 1.90% year-on-year. The total number of flights reached 63,667 in 2011, a decrease of 3.70% year-on-year.

- Passengers at HIA -
(thousand)

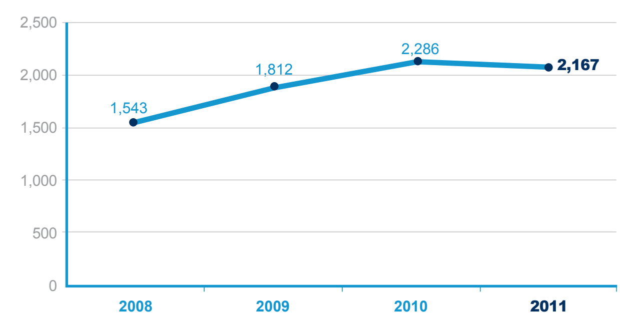


4- Beirut Port

Figures released by the Beirut Port Authority show that the total tonnage of loaded and unloaded merchandise increased by 3.20% in 2011 relative to 2010, to reach 6.67 million tons in 2011.

The number of containers reached 585,220 containers in 2011, a decrease of 2.40% as compared to 2010. Also the total number of ships reached 2,167 in 2011, a decrease of 5.20% as compared to 2010. Whereas, total transshipments surged by 28.70% as compared to 2010, to reach 449,029 containers in 2011.

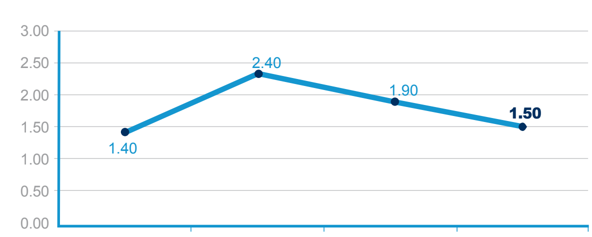
- Number of Ships at Beirut Port -



5. Customs Receipts

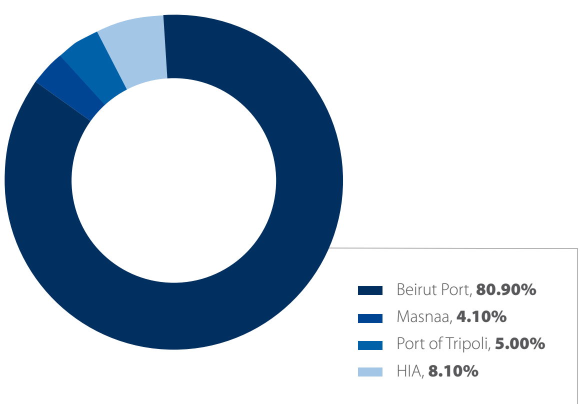
Based on the figures released by the Customs Directorate, customs revenues reached USD 1.50 billion in 2011, a decrease of 21.05% from 2010.

- Customs Receipts (USD, billion) **-**



The Port of Beirut continues to be the main point of customs revenues, accounting for 80.90% of the total, followed by the Hariri International Airport, the Port of Tripoli, and the Masnaa crossing point with 8.10%, 5.00%, and 4.10% respectively. Overall customs receipts reached USD 3 billion in 2011 when including revenues from the value-added tax that amounted to USD 1.50 billion over that period of time..

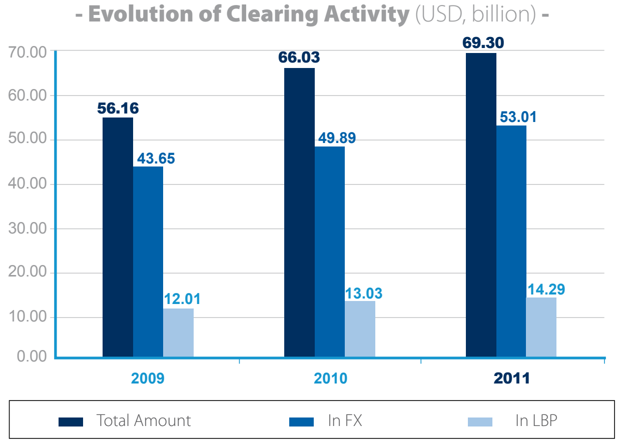
- Points of Customs Receipts -



6- Clearing Activity

Based on the figures released by the Association of Lebanese Banks, the value of cleared checks reached USD 69.30 billion in 2011, an increase of 4.95% as compared to 2010. The value of cleared checks in Lebanese pounds increased by 9.70% to the equivalent of USD 14.29 billion, and the value of cleared checks in foreign currencies increased by 6.25% to USD 53.01 billion. The dollarization rate of cleared checks increased from 80.20% to 81.80% year-on-year.

- Evolution of Clearing Activity (USD, billion) -

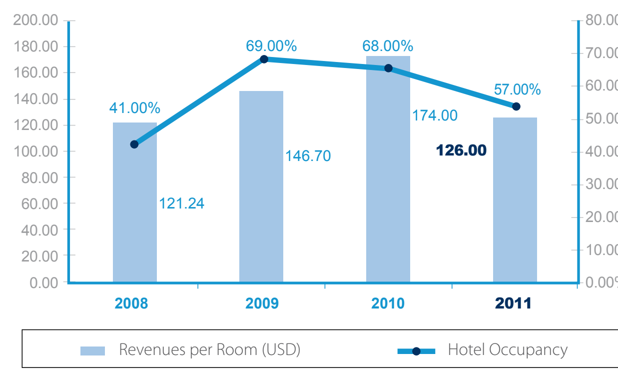


7- Hotel Occupancy

Based on the data issued by the Ministry of Tourism, the occupancy rate at hotels reached 57.00% in 2011, a decrease of 11.00% as compared to last year.

Further, revenues per available room reached USD 126.00 in 2011, a decrease of 27.50% as compared to 2010.

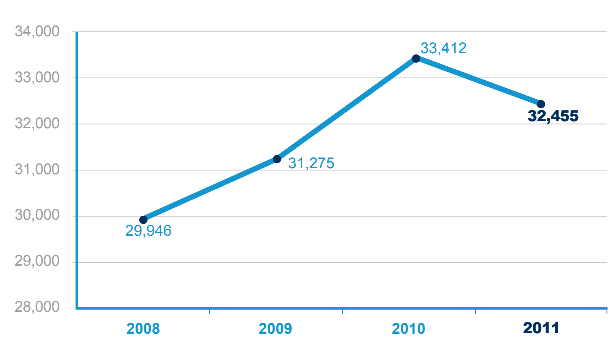
- Hotels Activity Indicators -



8- Cars Sales

Based on the figures released by the Association of Automobile Importers in Lebanon, the number of cars sold during 2011 reached 32,455 new cars, a decrease of 2.86% from the 33,412 cars sold in 2010.

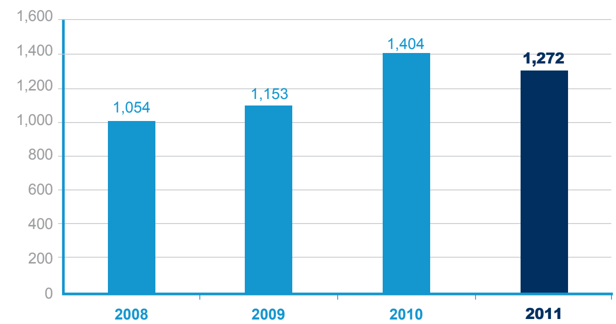
- Number of Cars Sold -



9- Kafalat Loan Guarantees

Based on the figures released by the Kafalat Corporation, loans under the guarantee of Kafalat have decreased by 2.60% in 2011, reaching an amount of USD 165.00 million, as compared to USD 169.40 million in 2010. The number of loan guarantees reached 1,272 in the said period, as compared to 1,404 in the previous year. Whereas, the average loan size increased by 7.50% to reach USD 129,720 in 2011, as compared to USD 120,640 in the previous year.

- Number of Kafalat Loan Guarantees -



Real Sector's Indicators

Indicators	2011	2010	Variation
Construction permits (Square meters, million)	16.42	17.62	-6.81%
Sales transactions	82,984	94,202	-11.91%
Number of tourists	1,655,051	2,177,699	-24.00%
Number of passengers at HIA	5,654,752	5,549,315	1.90%
Customs revenues (USD, billion)	1.50	1.90	-21.05%
Cleared checks (USD, billion)	69.30	66.03	4.95%
Hotel occupancy rate (%)	57.00	68.00	-11.00%
Number of containers at Beirut port	585,220	599,610	-2.40%
Number of car sales	32,455	33,412	-2.86%
Amount of Kafalat guarantees (USD, million)	165.00	169.40	-2.60%

Sources: Official Departments

III. Public Finances

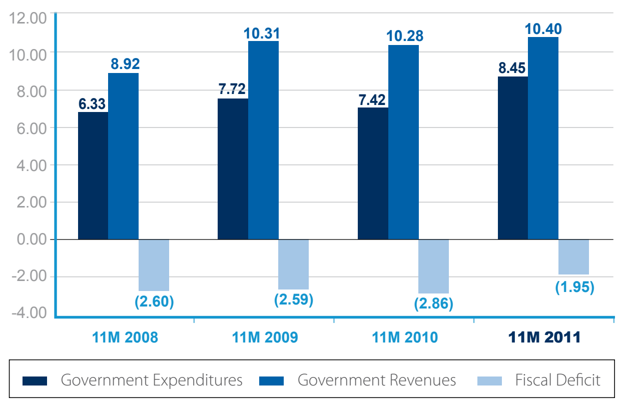
1. Fiscal Deficit

According to the figures released by the Ministry of Finance, the fiscal deficit reached USD 1.95 billion in the first eleven months of 2011, a decrease of 31.81% as compared to the same period of 2010.

Overall government revenues which include budget and Treasury receipts reached USD 8.45 billion in the first eleven months of 2011, an increase of 13.88% relative to the same period of 2010. The increase in Public revenues was higher for the period ranging between 2009 and 2010. Revenues from telecom receipts reached USD 1.32 billion. Total tax revenues decreased by 1.50%, to reach USD 6.05 billion.

While on the spending side, total public expenditures, which include budgetary and Treasury spending, increased by a yearly 1.17% in the first eleven months of 2011 to reach USD 10.40 billion, caused mainly by a rise in budgetary expenditures.

- **Public Finance Indicators** (USD, billion) -



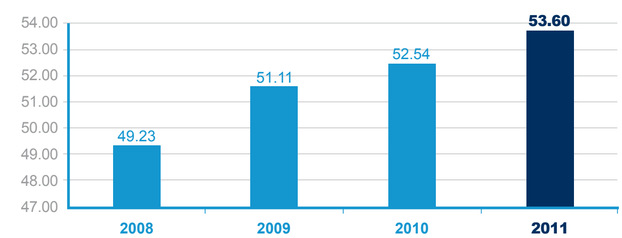
Interest payments on domestic and foreign debt reached USD 3.47 billion in the first eleven months of 2011, a decrease of 3.40% as compared to the same period of 2010.

When excluding debt service, the level of the primary balance registered a cumulative surplus of USD 1.73 billion in the first eleven months of 2011, as compared to a surplus of USD 925 million in the same period of 2010.

2. Public Debt

Based on the figures issued by the Ministry of Finance, the gross public debt reached USD 53.6 billion at the end of 2011, constituting an increase of 2.01% from 2010.

- **Gross Public Debt** (USD, billion) -



Domestic debt increased by 2.20% to USD 32.70 billion, while external debt increased by 1.70% to USD 20.90 billion. Local currency debt accounted for 61.00% of gross public debt in 2011 compared to 60.90% a year earlier, while foreign currency denominated debt represented 39.00% of the total at the end of 2011 relative to 39.10% a year earlier.

Net public debt, which excludes the public sector's deposits at the Central Bank of Lebanon and at commercial banks from overall debt figures, reached USD 46.40 billion in 2011, an increase of 3.02% as compared to 2010. It is also noted the retreat in the ratio of gross public debt to GDP from 1.80% in 2006 to 134% in 2010 and 132% in 2011.

Public Finances' Indicators

Indicators	2011	2010	Variation
Public revenues (USD, billion) (11 months)	8.45	7.42	13.88%
Public expenditures (USD, billion) (11 months)	10.40	10.28	1.17%
Deficit (USD, billion) (11 months)	1.95	2.86	-31.81%
Deficit /Expenditures (%)	18.75	27.82	-9.07%
Gross public indebtedness (USD, billion)	53.60	52.54	2.01%
Net public debt (USD, billion)	46.40	45.04	3.02%

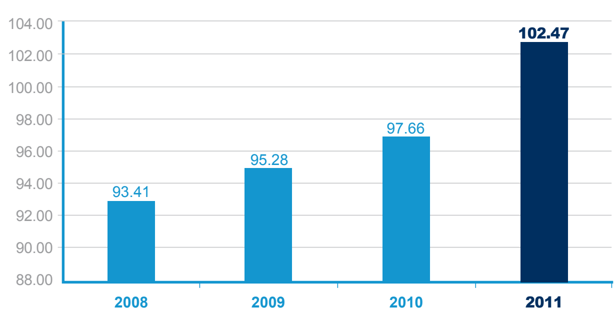
Sources: Ministry of Finance and Central Bank of Lebanon

IV. Monetary Situation

1. Money Supply

Based on the data issued by the Central Bank of Lebanon, Money supply (M4) expanded broadly to reach USD 102.47 billion over 2011, an increase of USD 5.08 billion or 5.22% as compared to its level during 2010. This resulted from a rise in foreign currency deposits of USD 5.34 billion, while the local currency denominated time deposits declined by USD 25.80 million and the money supply (M1) contracted by USD 126.70 million.

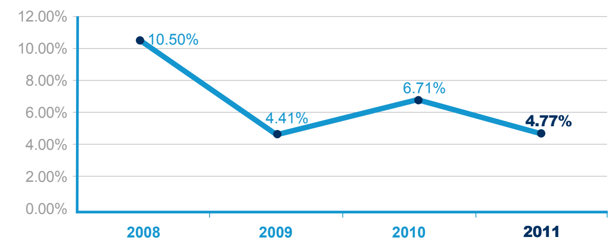
- Money Supply (M4) (USD, billion) **-**



2. Consumer Prices

Based on the figures issued by the Central Administration of Statistics, inflation rose by 4.77% in 2011. This is due to the increase in prices of most commodities in the Lebanese market, such as prices of education, which increased by 7.70%, followed by prices of transportation and telecommunication (5.90%), healthcare (4.30%), and food and beverages (3.90%).

- Consumer Price Index -

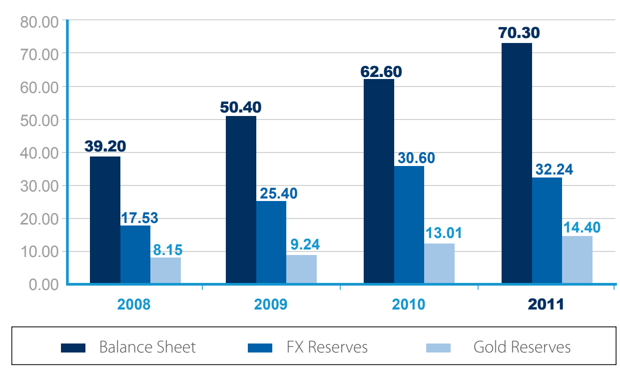


3. Central Bank Foreign Assets

According to the figures released by the Central Bank of Lebanon, its balance sheet reached USD 70.30 billion at the end of 2011 compared to USD 62.60 billion in 2010. Assets in foreign currencies increased by 5.36% to reach USD 32.24 billion, as compared to USD 30.60 billion in 2010. Its gold reserves increased by 10.68% from its value in 2010, to reach a value of USD 14.40 billion in 2011.

Also deposits of the financial sector rose by 14.60% in 2011, to USD 49 billion due to capital inflows into the banking sector.

- Central Bank's Indicators (USD, billion) **-**



Monetary Situation's Indicators

Indicators	2011	2010	Variation
USD/LBP exchange rate	1,507.50	1,507.50	0.00%
BDL assets in FX (USD, billion)	32.24	30.60	5.36%
BDL gold reserves (USD, billion)	14.40	13.01	10.68%
Money supply (M4) (USD, billion)	102.47	97.39	5.22%
Inflation rate (%)	4.77%	6.71%	-1.94%

Sources: Central Bank of Lebanon and the Lebanese Association of Banks

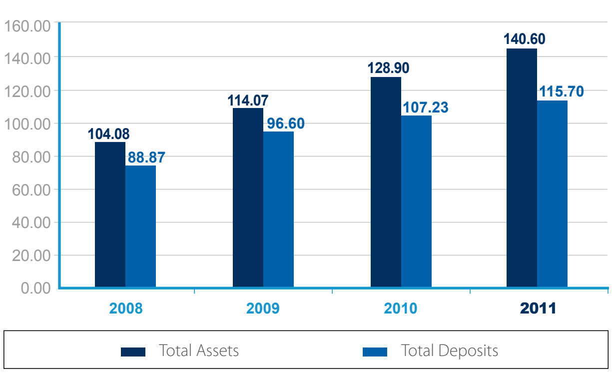
V. Financial Sector

1. Banking Sector

Based on the figures released by the Central Bank of Lebanon, the banking sector's total assets reached USD 140.60 billion in 2011, an increase of 9.07% as compared to 2010. Private sector deposits have also increased by 7.90% from 2010, to reach USD 115.70 billion.

Deposits in Lebanese pounds reached USD 39.40 billion in 2011, a decrease of 0.10% from 2010, while deposits in foreign currencies reached USD 76.30 billion in 2011, an increase of 12.70% from 2010. Non-resident foreign deposits reached USD 18.60 billion in 2011, an increase of 19.20% from 2010. The dollarization rate of deposits reached 65.90% at end of 2011, an increased of 2.70% as compared to 2010.

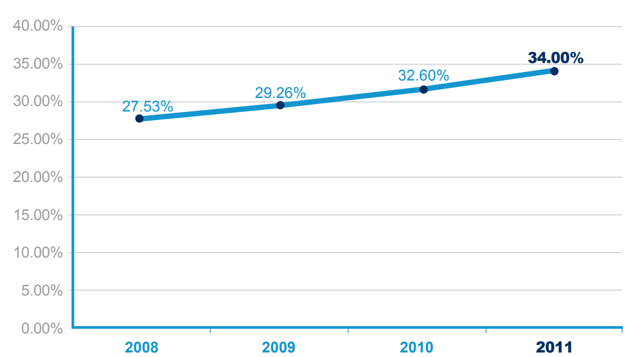
- **Banking Assets and Deposits** (USD, billion) -



Further, loans to private sector have increased by 12.70% in 2011 as compared to 2010, to reach USD 39.40 billion. Lending in Lebanese pounds increased by 23.80% in 2011 to reach USD 8.51 billion as compared to USD 6.87 billion in 2010. While lending in US dollars increased by 10.16% in 2011 to reach USD 30.90 billion as compared to USD 28.05 billion in 2010.

The ratio of private sector loans to deposits increased from 32.60% in 2010 to 34.00% in 2011. The banks' aggregate capital base has increased by 16.30% in 2011 to reach USD 10.70 billion.

- **Ratio of Private Sector's Loans to Deposits** -



Banking Sector's Indicators

Indicators	2011	2010	Variation
Total assets (USD, billion)	140.60	128.90	9.07%
Total deposits (USD, billion)	115.70	107.23	7.90%
Total loans (USD, billion)	39.40	34.96	12.70%
Ratio of private sector's loans to deposits (%)	34.00	32.60	1.40%
Banks' capital base (USD, billion)	10.70	9.20	16.30%

Sources: Central Bank of Lebanon and Lebanese Association of Banks

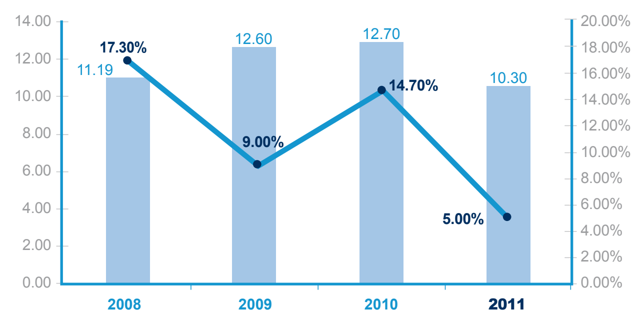
2. Capital Market

Figures released by the Beirut Stock Exchange (BSE) indicate that the total trading volume reached 77.50 million shares in 2011, a decrease of 52.90% as compared to 2010. While aggregate turnover declined by 72.40% to reach an amount of USD 515.30 million.

Market capitalization fell by 18.90% to USD 10.30 billion, of which 72.80% was in banking stocks and 23.10% in real estate stocks. The market liquidity ratio decreased to 5.00%, as compared to 14.70% for 2010.

The average daily traded volume for the period dropped by 52.50% to 320,234 shares as compared to an average daily volume of 674,176 shares in 2010. The average daily traded value for the period decreased by 72.18% to reach USD 2.10 million as compared to an average daily value of USD 7.55 million in 2010.

- Stock Market Activity -



BSE Indicators

Indicators	2011	2010	Variation
Market capitalization (USD, billion)	10.30	12.70	-18.90%
Total trading Volume (Shares, million)	77.50	164.54	-52.90%
Aggregate turnover (USD, million)	515.30	1,867	-72.40%
Average daily value (USD, million)	2.10	7.55	-72.18%

Sources: BSE and Central Bank of Lebanon

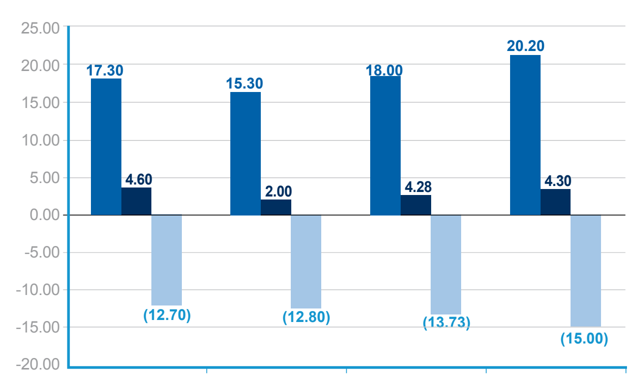
VI. Foreign Sector

1. Foreign Trade

According to figures issued by the Higher Customs Council, imports increased by 12.22% to reach USD 20.20 billion in 2011, while exports increased by 0.47% to reach USD 4.30 billion in the same period, leading to an increase of 16.06% in trade deficit to reach USD 15.90 billion.

The main sources of imports are the United States with 9.90% of total imports, followed by Italy (9.10%), China (8.10%), and France (7.50%). While the main sources of exports are: Switzerland with 12.10% of total exports, followed by UAE (7.50%), Saudi Arabia (7.20%), Turkey (6.50%), and Syria (5.00%).

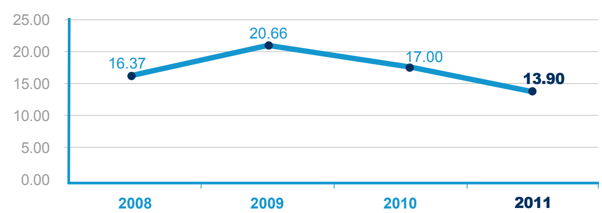
- **External Sector Indicators** (USD, billion) -



2. Capital Inflows

Capital inflows decreased by 18.23% to reach USD 13.90 billion, as compared to USD 17 billion in 2010, which indicates that Lebanon had been negatively affected by the existing regional turmoil, and the local political tension.

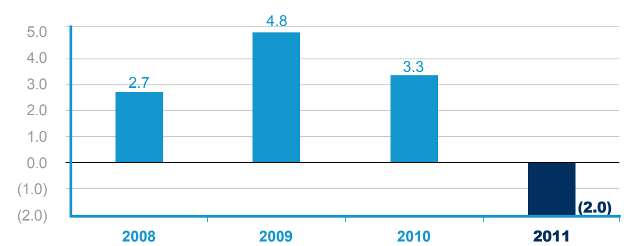
- **Financial Inflows** (USD, billion) -



3. Balance of Payments

Based on the figures issued by the Central Bank of Lebanon, Lebanon's balance of payments posted a deficit of USD 2 billion in 2011 compared to a surplus of USD 3.30 billion in last year. This cumulative deficit over 2011 was caused by a surplus of USD 2.30 billion in the Central Bank's net foreign assets and a deficit of USD 4.30 billion in those of banks and financial institutions.

- **Balance of Payments** (USD, billion) -



Foreign Sector's Indicators

Indicators	2011	2010	Variation
Trade deficit (USD, billion)	15.90	13.70	16.06%
Exports (USD, billion)	4.30	4.28	0.47%
Imports (USD, billion)	20.20	18.00	12.22%
Capital inflows (USD, billion)	13.90	17.00	-18.23%
Balance of payments (USD, billion)	-2.00	3.30	-160.60%

Sources: Higher Customs Council and the Central Bank of Lebanon

VII. Economic Prospects

The United Nation's Economic and Social Commission for Western Asia (ESCWA) projected that Lebanon's real GDP growth rate at 4.50% in 2012 relative to 2.50% in 2011, a decrease of 7.50% from 2010, and as compared to 4.70% average growth in the ESCWA countries. This would make Lebanon the fifth fastest growing economy in the ESCWA region. On the other hand, the International Monetary Fund (IMF) estimated Lebanon's real GDP growth rate to be 3.50% in 2012 relative to 2.00% in 2011.

The ESCWA pointed out that Lebanon's financial sector decreased significantly by 50% in 2011 due to the retreat by 50% of foreign direct investments. The report also noted that domestic and regional instability adversely impacted remittances, tourism receipts and capital inflows to Lebanon, as remittances inflows to Lebanon decreased from USD 7.50 billion in 2007 to USD 5.10 billion in 2010 and USD 3.90 billion in 2011.

The ESCWA also reflected in its report that political instability affected negatively the tourism and construction sectors in Lebanon, which could increase layoffs across the country in 2012.

Implications of the Arab Spring on the Arab Region: An Outlook on the Lebanese Economy

General Information

The Arab Spring is a revolutionary wave of demonstrations and protests occurring in the Arab world that began on Saturday, December 18, 2010.

The Arab spring's mass protests that have shared techniques of civil resistance in sustained campaigns involving strikes, demonstrations, marches and rallies, as well as the use of social media to organize, communicate, and raise awareness in the face of state attempts at repression and internet censorship.

The Arab Spring which aims to take down authoritarian regimes across several countries in the Arab region has run into serious difficulties. While transitions in Tunisia and Egypt remain peaceful, earlier hopes for a quick passage to a more democratic future have dimmed as the process of political transformation was found to be more complex and uncertain. In Egypt, the military leadership has continued to send mixed and confusing signals on the immediate steps to complete the transition. In Libya and Yemen, the revolutions that have gone on for several months have yet to dislodge the leaders of the old regimes. In Syria, violence and repression have escalated with no end in sight.

Numerous factors have led to the protests, including issues such as dictatorship or absolute monarchy, human rights violations, government corruption, economic decline, unemployment, extreme poverty, and a number of demographic structural factors such as a large percentage of educated but dissatisfied youth within the population.

The World Bank estimated in 2010 that 60% of the Arab world is people under 30 years old. Millions of Arab youth are working hard on getting their education, graduating and then couldn't find suitable jobs at acceptable salaries. This indicates that the Arab market is becoming a highly competitive place for job seekers.

Arab Region in 2011

Aggregate real GDP of the Arab countries is expected to rise by 4.8% in 2011. While output is projected to contract slightly in oil importers in 2011, it will expand by 6.4% in oil exporters. The divergence in performance will moderate in 2012, as oil and gas production will be restrained and some recovery will set in the countries that experienced political turmoil.

Private consumption and government spending are expected to rebound in 2012 and lead the economic activity. Private investment is expected to decline or remain at the same level, due to political uncertainty in the region and deterioration in the external environment, particularly in the European Union.

In general, the financial sectors in Arab oil exporters are better prepared for deterioration in the external environment, as banks' liquidity continues to improve and deleveraging progresses steadily. Equity markets in some countries of the region were hit hard by the Arab unrest. Egypt's equity market has dropped by 34% since the start of 2011, while the declines were 8% in Saudi Arabia, 10% in Abu Dhabi, 16% in Dubai and 18% in Beirut. In comparison, emerging markets' equity fell by 20% in the first three quarters of 2011.

Many Arab countries differ in terms of their economic status, social behaviors, norms and cultures. That's why the impact of Arab Spring and its severity depends on whether the Arab country is an oil exporter country or an oil importer one.

Oil Exporters

Average overall growth of Arab oil exporters is projected to rise from 4.7% in 2010 to 6.5% in 2011, buoyed by higher oil and gas production and large increases in government spending (aggregate projections for oil exporters exclude Libya). Higher oil prices and production levels should help lift the budget revenues from hydrocarbon exports from USD 554 billion in 2010 to USD 793 billion in 2011 and then decline to USD 725 billion in 2012.

- Arab Oil Exporters -

Overall Growth	2008	2009	2010	2011f	2012f
Saudi Arabia	4.2	0.3	3.8	5.8	3.7
UAE	4.8	-3.5	3.2	4.4	3.1
Kuwait	4.7	-4.8	2.9	4.4	2.9
Qatar	25.4	8.6	18.3	18.0	5.3
Oman	12.8	1.1	4.1	4.4	4.5
Bahrain	6.3	3.1	4.5	2.2	3.3
Algeria	2.9	4.6	3.5	4.0	3.9
Iraq	9.0	4.7	1.7	8.2	8.4
Libya	2.7	-0.7	3.8	-56.0	55.0

Source: Institute of International Finance.

This surge in revenues far exceeds the increases in government spending and underlies the widening of the consolidated fiscal surplus from 3.2% of GDP in 2010 to 8.1% in 2011, before narrowing to 2.1% of GDP under the assumption of lower oil prices of USD 97/barrel in 2012 (compared with USD 109/barrel in 2011). The combined external current account surplus is projected to rise from USD 170 billion in 2010 to USD 322 billion in 2011, but then decline to USD 225 billion in 2012. Gross foreign assets of the GCC are projected to rise to about USD 1.9 trillion (against foreign liabilities of USD 0.4 trillion).

Non-oil Countries

For non-oil Arab countries, the economic toll from the political turmoil will translate into a contraction in output of 0.4% in 2011. Assuming peaceful but bumpy political transitions and baseline projections of external financial support, their real GDP is expected to grow by 2.3% in 2012, underpinned by a modest recovery in investment. This would leave the level of real GDP about 6 percentage points below where it had projected by the end of 2012. As a result, these countries will continue to face limited fiscal room and rising borrowing costs. The combined external financing need for Egypt, Jordan, Morocco and Tunisia is projected at about USD 35 billion for 2011 and 2012. The main downside risk to the outlook includes difficulties in political transition, shortfalls in external support, and a weaker outlook in Europe.

- Arab Oil Importers -

Overall Growth	2008	2009	2010	2011f	2012f
Egypt	7.2	5.9	4.8	-1.4	2.0
Jordan	7.2	5.5	2.3	2.7	3.2
Lebanon	9.3	8.5	7.0	1.8	3.8
Morocco	5.6	4.8	3.8	4.3	3.9
Syria	5.2	4.0	3.5	-6.0	-3.0
Tunisia	4.5	3.1	3.7	-2.0	4.0

Source: Institute of International Finance.

As momentous as the current security and political restructuring challenges may be, it is critical that the transition authorities also place a high priority on deepening and accelerating structural economic reforms. Among the populations of countries such as Egypt, Tunisia, Jordan and Morocco, expectations are that change will bring about a revival of growth that will be more widely shared, improved job opportunities and, in general, a better standard of living.

Arab Countries' Performance

The regional growth average masks wide variations in prospects for individual countries given the economic, social and capabilities of each country.

UAE's economy is expected to grow in 2011 on the back of rising oil production. Most indicators of economic activity have registered a significant rise in real terms in the first three quarters of this year. In Abu Dhabi, non-hydrocarbon growth will be supported by high public spending on infrastructure, including through Government-Related Entities (GREs). The solid growth in Dubai's core activities of trade, retail sales, and tourism will more than offset the continued retrenchment in the construction and real estate sectors, resulting in growth of 3%.

Saudi Arabia's economy is expected to have an overall growth of 5.8% in 2011, driven by a substantial increase in crude oil production and government spending. Non-hydrocarbon sectors are also expected to grow by 4.8%.

The private sector activity is expected to moderate in the second half of 2011 and in 2012. Construction activity has been declining in the past few months partly due to uncertainties arising from regional political concerns and slower global growth.

Algerian economy will achieve an overall growth of 4.0% in 2011 driven by a strong performance of both hydrocarbon and non-hydrocarbon sectors, besides robust government spending that continues to drive economic activity, allowing for the expansion of public sector employment and consumption spending. Construction and services will continue to be the main drivers of the strong growth in non-hydrocarbon sectors.

Libya has been without a coherent national governance system for four decades and lacks the institutions to help manage a smooth transition. Libya's medium-term prospects for sustainable, high economic growth should be good. The country's large foreign assets, which have declined from USD 150 billion before the war to USD 110 billion in 2011, and oil wealth, will help to attract foreign investment and expertise to restore oil production and rebuild the economy. Following the sharp contraction of 54% in output in 2011, real GDP is projected to rebound sharply in 2012 and subsequent years, due to the gradual recovery of oil production and spending on infrastructure.

Egypt was severely disrupted in 2011 where it's real GDP dropped by 6%, while the rebound in the industrial production and the resilient activity of Suez Canal traffic that was less affected by the turmoil, contribute to enhance the economic situation and restore the positive growth for 2012.

Tunisia's economy is expected to contract by 1.7% in 2011, compared to growth of 3.4% in 2010, although it has contracted by 3.5% in the first half of 2011 due to the economic cost of the January uprising and the war in Libya which hurted tourism and caused Tunisian workers to leave Libya, leading to the loss of remittance income. Industrial production fell by 10%, tourism receipts dropped by 40%, and FDI declined by 35%. Official reserves have declined by USD 2.3 billion since end-2010 to USD 8.2 billion by end-August 2011.

Morocco is expected to achieve a real GDP growth of 4.3% in 2011, driven by a rebound in agricultural output. Nonagricultural growth decelerated from 4.7% in 2010 to 3.5% in 2011, partly due to weaker investment and demand from the euro area.

The Lebanese Economy

Lebanon's macroeconomic performance has been affected negatively given the local political tension, regional turmoil, and the unfavorable global conditions, especially those related to debt crisis in the Euro zone and the United States. Its real GDP has achieved a positive growth of 2.8% in 2011 according to the Institute of International Finance (IIF) estimates, a slower pace than what had been previously achieved in the last four years at an average growth rate of 6%.

Its real sector has been severely affected by the current circumstances as it is indicated by the slowdown in most of its main indicators. Trade deficit has been also widened by 15.9% in 2011, coupled by lower capital inflows with a decline of 18.23%, which formed a deficit of USD 2 billion in the balance of payment as compared to a surplus of USD 3.3 billion in 2010.

Financial sectors' performance had been also affected negatively by the existing turmoil as the overall activity of the Beirut Stock Exchange slowed down and the growth of banking sector's assets retreated from 14% in 2010 to 10% only, to reach USD 140.6 billion during the same period.

Forecasted Economic Outlook

There are significant risks to the economic outlook of the non-oil countries. The first relates to the difficulties encountered in the political transition process. Tunisia will most likely manage a peaceful and relatively successful transition, while in contrast the outlook for Egypt has dimmed as presidential elections are postponed and rising discontent with the military rulers escalates. Growth rates could therefore suffer while current account and fiscal deficits could widen further (current account).

Secondly, shortfalls in external assistance needed to bridge financing gaps during the transition, especially in Egypt and to a lesser extent in Tunisia, Jordan and Morocco, could further strain external accounts, putting pressures on currencies and/or reserve levels and possibly reigniting inflation.

Finally, spillovers from sluggish growth in European partners would adversely impact economic activity and external positions through lower tourism receipts, foreign direct investment, and trade. As for the oil-exporting countries in the region, the downside risks are evident but manageable. Subdued asset prices, improvement in banks' balance sheets, and growing trade with resilient Asian economies should support economic activity for some time.

At the macroeconomic level, there is an urgent need to articulate a credible medium-term reform and stabilization framework. Given the relatively large size and low productivity of public sectors in the region, the reform agenda would need to focus on reforming state institutions and policy frameworks and creating the legal and institutional environment for fostering entrepreneurship, investment, and market-driven growth. Fiscal deficits are already high and in some cases unsustainable, and care must be taken not to raise government spending until higher revenues are secured and reforms take hold. While external debt levels are not particularly high, any external support must be channeled to investment instead of consumption.

Arab World Outlook Main Macroeconomic Indicators

	GDP (USD, billion)	Real GDP Growth (% Change)			Fiscal Balance (% GDP)			Current Account Balance (USD, billion)		
	2011f	**2010**	**2011f**	**2012f**	**2010**	**2011f**	**2012f**	**2010e**	**2011f**	**2012f**
Arab World	**2180**	**4.7**	**4.9**	**3.6**	**0.9**	**4.5**	**-0.3**	**148.1**	**296.5**	**201.7**
Oil Exporters	**1677**	**4.7**	**6.5**	**4.0**	**3.2**	**8.1**	**2.1**	**170.1**	**321.8**	**225.0**
Bahrain	26	4.5	2.2	3.3	-6.6	0.2	-3.1	0.8	2.6	2.5
Kuwait	168	2.9	4.4	3.1	19.8	20.8	10.1	36.9	59.9	43.4
Oman	73	4.1	4.4	4.5	3.2	9.4	3.4	6.6	13.6	7.4
Qatar	174	18.3	18.0	5.3	2.9	3.2	0.4	14.8	35.2	26.9
Saudi Arabia	571	3.8	5.8	3.7	5.6	10.4	3.2	67.1	192.1	89.7
UAE	368	3.2	4.4	3.1	-1.4	5.8	2.3	24.3	49.2	42.6
Algeria	189	3.2	4.0	3.9	3.8	0.3	-3.2	10.0	22.4	11.5
Iraq	108	0.8	8.2	8.4	-11.1	7.6	-3.1	-6.7	7.0	0.9
Oil Importers	**503**	**4.5**	**-0.4**	**2.3**	**-5.9**	**-7.7**	**-8.0**	**-22.0**	**-25.3**	**-23.3**
Egypt	232	4.8	-1.8	2.0	-8.1	-9.6	-10.2	-4.3	-3.7	-3.5
Jordan	28	2.3	2.5	3.2	-6.8	-6.7	-4.7	-1.3	-2.4	-2.0
Lebanon	41	7.0	2.8	3.8	-5.5	-8.3	-9.6	-6.0	-7.0	-7.0
Morocco	100	3.8	4.3	3.9	-4.5	-5.5	-6.1	-4.2	-5.6	-4.3
Syria	57	4.5	-6.1	-3.0	-3.8	-6.7	-8.2	-2.1	-3.6	-3.9
Tunisia	45	3.7	-1.7	4.0	-1.4	-4.5	-3.1	-2.1	-3.0	-2.5
Memoranda										
GCC	1380	5.2	6.7	3.7	4.8	9.3	3.3	150.5	292.5	212.5
Libya	34.0	4.3	-56.0	55.0	13.1	-34.3	-15.6	16.4	-8.0	-2.1

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