

ECONOMIC BULLETIN

year 2010

REPORT

STUDY



FRANSABANK

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BULLETIN
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**Study : Social Stability and Its Strategic Importance
in Improving the Investment Climate,
Growth Process and Economic Development in the Arab World**

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LEBANON'S MACROECONOMIC PERFORMANCE IN 2010

[EXECUTIVE SUMMARY]

Lebanon's Macroeconomy has recorded better results in 2010 relative to those in the last year:

- Growth is estimated between 7-8% in 2010.
- Construction permits increased by 16.4%.
- The number of tourists increased by 17.29%.
- The number of passengers at the HIA grew by 11.31%.
- The number of property sales operations increased 12.7%.
- The value of property sales grew by 35.1%.
- The amount of cleared checks increased by 20.01%.
- The fiscal deficit decreased by 1.27%.
- The net public debt increased by a slight rate of 2.00%.
- The Central Bank's foreign assets increased by 8.13%.
- The banking sector's total assets grew by 12.00% to USD 128.92 billion.
- The BSE aggregate turnover increased by 87.00% to USD 1.87 billion.
- Capital inflows declined by 17.66% to USD 17.01 billion.
- The balance of payments recorded a surplus of USD 3.3 billion in 2010.
- Growth is estimated at 5.9% in 2011.

[INTRODUCTION]

The Lebanese macroeconomy has continued its good performance in 2010 following a strong performance in 2009. The real sector's performance was better, as indicated by enhanced indicators of the leading sectors. The public finances have improved with lower deficit ratio, higher primary surplus, and slowing public debt growth.

The monetary situation has continued its stability, accompanied by a growing banking sector and increased liquidity. The balance of payments achieved a lower surplus due to the decline in capital inflows. The macroeconomy is posed to continue its growth in 2011 but at a lower pace due to current political tension, while supported by good economic conditions.

[I. REAL SECTOR]

The real sector activity has improved in 2010, as compared to 2009, which is clearly reflected in the evolution of its indicators that are mentioned in the following.

1. Construction and Real Estate

According to the figures released by the Directorate of Real Estate, the number of property sales operations reached 94,202 transactions in 2010, a 12.70% increase from the previous year. Its value also increased by 35.1% relative to 2009, to reach an amount of USD 9.47 billion in 2010, along with an average value per sale of USD 100,630, an increase of 19.9% than the average of 2009. Moreover, figures released by the Order of Engineers in Beirut and North showed that the number of construction permits increased by 16.4% in 2010 to reach 17,612, and the construction authorized area surged consequently by 22.29% from 2009, to reach 17.5 million square meters.

2. Tourism

In 2010, the number of incoming tourists to Lebanon has increased by 17.29%, reaching 2.17 million as compared to 1.85 million tourists in 2009, which is considered as the new record in tourism since ever. Whereas taking nationality into consideration, the incoming tourists were divided as follows: Arab tourists accounted for 34.6% of total visitors in 2010, followed by tourists from Europe with 22.9%, Asia with 16% and the Americas with 12.4%.

3. Tax Free Purchases

As per the figures released by Global Refund, tax free purchases have increased by 21% in 2010 as compared to the previous year, which shows a more active tourism activity during 2010. The distribution of expenditures of tourists in Lebanon shows that the majority of visitors to Lebanon were Arabs, as spending of nationals from Saudi Arabia and United Arab Emirates accounted for 23% and 10% of total spending of tourists respectively in Lebanon.

4. Airport Activity

Figures released by the Hariri International Airport (HIA) demonstrate that passengers' activity witnessed an 11.31% increase in 2010 relative to 2009, reaching 5.51 million passengers using the HIA.

5. Clearing Activity

According to the Association of Banks in Lebanon, the amount of cleared checks increased by 20.01% in 2010 as compared to 2009, reaching USD 67.4 billion. The dollarization rate of the cleared checks for the year was lower at 63%, compared to 80.3% in 2009.

6. Customs Receipts

Based on the figures of the Higher Customs Council, the customs revenues in 2010 were USD 1.9 billion, an increase of 5.5% from 2009. Customs receipts from the value added tax increased by 10.2% in 2010 to reach a value of USD 1.5 billion. As a result, overall custom receipts surged by 7.59% to reach USD 3.4 billion in 2010.

7. Hotel Occupancy

According to the survey conducted by Ernst & Young, the occupancy rate at hotels reached 68% in 2010, a decrease by 5.00% as compared to 73% in 2009. Furthermore, revenues per available room decreased by 3.8% as compared to 2009, reaching a value of USD 177.

8. Kafalat Loan Guarantee

Based on the figures released by the Kafalat Corporation, loans under the guarantee of Kafalat increased by 21.3% in 2010, reaching USD 169.4 million, as compared to USD 139.6 million in 2009. The number of loan guarantees reached 1,404 in the said period, as compared to 1,050 in the previous year. The average loan size reached USD 120,640 in 2010, as compared to USD 132,964 in 2009.

9. Car Sales

The Association of Automobile Importers in Lebanon indicates that a total of 33,402 new cars were sold in 2010, compared to 32,177 cars sold in 2009, an increase of 3.80%.

REAL SECTOR'S INDICATORS

INDICATORS	2010	2009	VARIATION (%)
Number of property sales	94,202	83,586	12.70%
Construction area permits (in million square meters)	17.5	14.31	22.29%
Number of tourists (in million)	2.17	1.85	17.29%
Number of passengers at HIA (in million)	5.51	4.95	11.31%
Cleared checks (in USD billion)	67.4	56.16	20.01%
Customs receipts (in USD billion)	3.4	3.16	7.59%
Hotel occupancy rate	68%	73%	-5.00%
Car sales	33,402	32,177	3.81%
Number of loan guarantees	1,404	1,050	33.71%

Sources: Official Departments

[II. PUBLIC FINANCES]

Public finances have improved year-on-year, with a lower fiscal deficit ratio, slowdown in public debt growth, and higher primary surplus.

1. Fiscal Deficit

According to the Ministry of Finance, the fiscal deficit has decreased by 1.27% from 2009, to reach an amount of USD 2.92 billion in 2010. Overall government revenues have decreased by 0.12%, to reach USD 8.41 billion, after the decrease in tax revenues by 0.15% from 2009. While total government expenditures decreased by 0.44% from 2009, to reach an amount of USD 11.33 billion in 2010. Excluding debt servicing, the primary surplus reached USD 1.2 billion, compared to a surplus of USD 1.08 billion in 2009. The fiscal deficit ratio was 25.77% in 2010, as compared to 26.09% in 2009, which reflect a decrease of 0.32% over the year.

2. Public Debt

According to the Ministry of Finance, the gross public debt increased by 3.00% from 2009, to reach an amount of USD 52.6 billion in 2010. Net public debt (after excluding the public sector deposits at commercial banks and the central bank from gross public debt) reached an amount of USD 45 billion in 2010, with an increase of 2.00% from 2009.

It is noticed that the debt-to-GDP ratio has declined over the past few years. It reached 134% in 2010, relative to 148% in 2009 and 180% in 2006.

PUBLIC FINANCE'S INDICATORS

INDICATORS	2010	2009	VARIATION (%)
Public revenues (in USD billion)	8.41	8.42	-0.12%
Public expenditures (in USD billion)	11.33	11.38	-0.44%
Deficit (in USD billion)	2.92	2.97	-1.68%
Primary surplus (in USD billion)	1.2	1.08	12.00%
Gross public indebtedness (in USD billion)	52.6	51.1	3.00%
Net public debt (in USD billion)	45	44.11	2.00%

Sources: Ministry of Finance and Central Bank of Lebanon

[III. MONETARY SITUATION]

The Monetary Situation has continued its stability owing to better economic conditions and the prevailing monetary stabilization policy of the Central Bank.

1. Money Supply

The money supply (M4) surged by USD 10.36 billion in 2010. This is resulted from the increase in local currency denominated time deposits by USD 4.71 billion, a rise in foreign currency deposits by USD 4.98 billion, an increase in money supply (M1) by USD 459 million, and the growth in treasury bills held by the public by USD 206 million.

2. Consumer Prices

According to the figures released by the Consultation and Research Institute for the year 2010, the Consumer Price Index (CPI) reached 6.2%, an increase from 4.2% as compared to 2009. This increase in CPI was mainly due to the increase of 9.76% in prices of food and beverages, 17.25% rise in prices of recreation, 7.33% rise in prices of housing, a 6.74% rise in prices of education, and an increase of 6.85% in the prices of miscellaneous goods and services.

3. Central Bank Foreign Assets

The Central Bank's foreign assets reached USD 30.6 billion in 2010, an increase of 8.13% as compared to 2009. The Central Bank's gold reserves increased by USD 13 billion in 2010, an increase of 29.3% from 2009, and the deposits of the financial sector rose by 13% from 2009, reaching a value of USD 42.7 billion.

4. Credit and Debit Cards

According to the Central Bank of Lebanon, the issuance of debit and credit cards reached 1.72 million cards in 2010, a 5.53% increase from 2009.

MONETARY SITUATION'S INDICATORS

INDICATORS	2010	2009	VARIATION (%)
USD/LBP exchange rate	1,507.5	1,507.5	0.00%
CB FX reserves (in USD billion)	30.6	28.3	8.13%
Price index (Inflation rate)	6.2%	4.2%	2.00%
Number of credit and debit cards issued (in million)	1.72	1.63	5.53%

Sources: Central Bank of Lebanon and Association of Lebanese Banks

[IV. FINANCIAL SECTOR]

The banking sector has continued its impressive growth in 2010 relative to the previous year, and the activity of the BSE has improved.

1. Banking Sector

The Lebanese banking sector has continued its outstanding performance in 2010, with a high rate of growth in all of its components. Its total deposits grew by 11.90%, to reach USD 107.16 billion, with an average monthly increase of USD 1 billion. Total Loans to the private sector grew by 23.08% in 2010 to reach USD 34.92 billion, compared to USD 28.37 billion in 2009. Total assets grew by 12.00% in 2010 from a year earlier, reaching USD 128.92 billion, compared to USD 115.12 billion in 2009. Total capital, on the other hand, reached USD 9.22 billion, an increase of 16.12% over 2009.

BANKING SECTOR'S INDICATORS

INDICATORS	2010	2009	VARIATION (%)
Total assets (in USD billion)	128.92	115.12	12.00%
Total deposits (in USD billion)	107.16	95.76	11.90%
Total capital (in USD billion)	9.22	7.94	16.12%
Credits to private sector (in USD billion)	34.92	28.37	23.08%

Sources: Central Bank of Lebanon and Association of Lebanese Banks

2. Capital Market

According to the figures of the Beirut Stock Exchange, Market capitalization declined by 1.24%, to reach USD 12.7 billion, the total trading volume reached 164 million shares, an increase of 60.50% over 2009, whereas the aggregate turnover increased by 87.00% in 2010 to reach USD 1.87 billion. The average daily trading volume increased to 674,813 shares in 2010, compared to 418,618 shares in 2009. The market liquidity ratio was 14.7% in 2010 as compared to 8.1% in 2009. Banks' stocks accounted for 90.4% of aggregate trading volume and 81.5% of their aggregate value, while real estate stocks accounted for 9.3% of their aggregate volume and 18.2% of their aggregate value.

BSE INDICATORS

INDICATORS	2010	2009	VARIATION (%)
Market capitalization (in USD billion)	12.7	12.86	-1.24%
Total trading volume (in million shares)	164	102.18	60.50%
Market liquidity	14.7%	8.1%	6.60%
Total aggregate turnover (in USD billion)	1.87	1.0	87.00%
Average daily traded volume (shares)	674,813	418,618	61.20%

Sources: BSE and Central Bank of Lebanon

[V. FOREIGN SECTOR]

The balance of payments recorded a substantial surplus due to continuous capital inflows, although at lower pace, while trade conditions were little changed from 2009.

1. Foreign Trade

Exports and Imports continue to show a solid activity in 2010 with a total amount of USD 22.21 billion. Exports increased by 21.42%, to reach USD 4.25 billion in 2010, from USD 3.5 billion in 2009. Imports also increased by 10.45% to USD 17.96 billion, as compared to USD 16.26 billion in 2009. As a result, the trade deficit was at USD 13.71 billion in 2010 as compared to USD 12.76 billion in 2009.

2. Capital Inflows

Capital inflows to Lebanon amounted to USD 17.01 billion in 2010, a decrease of 17.66% from 2009. This is due to lower non-residents deposits inflow as well as to smaller foreign direct investment and cash transfers to Lebanon.

3. Balance of Payments

The balance of payments registered a surplus of USD 3.3 billion in 2010, as compared to USD 7.9 billion in 2009, a 58.23% decrease over the year, due to the surplus of USD 3.2 billion in the Central Bank's foreign assets, and a surplus of USD 135 million in those of banks and financial institutions. This decrease in the balance of payments was the result of the lower level of capital inflows into the country as the effects of the global financial crisis started to retreat in neighboring countries that attracted some of these capital inflows.

FOREIGN SECTOR'S INDICATORS

INDICATORS	2010	2009	VARIATION (%)
Exports (in USD billion)	4.25	3.5	21.42%
Imports (in USD billion)	17.96	16.26	10.45%
Trade deficit (in USD billion)	13.71	12.76	7.45%
Capital inflows (in USD billion)	17.01	20.66	-17.66%
Balance of payments (in USD billion)	3.3	7.9	-58.23%

Sources: Higher Customs Council and Central Bank of Lebanon

[VI. ECONOMIC PROSPECTS]

As per the report released by the Economist Intelligence Unit (EIU), Lebanon's macroeconomic performance will achieve a positive growth in 2011, although at a slower pace due to the recent political tensions. Economic growth is estimated at 7-8% in 2010. It has slowed down during the last quarter of 2010 due to the aggregated political conflict in Lebanon. This growth is mainly driven by the services sector, specifically by the financial sector that is backed by high confidence level among businesses and other consumers. The new government should conduct immediate fiscal reforms to reduce the large public debt stock, and as a result it will minimize the burden of debt servicing cost on the public budget.

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SOCIAL STABILITY AND ITS STRATEGIC IMPORTANCE IN IMPROVING THE INVESTMENT CLIMATE, GROWTH PROCESS AND ECONOMIC DEVELOPMENT IN THE ARAB WORLD

[EXECUTIVE SUMMARY]

- The growth rate in the Arab region increased from 2.3% in 2001 to 6.6% in 2008, and reached 4.1% in 2009.
- The Arab world's share from global trade and investment is around 5-6%.
- The proportion of inter-Arab trade to external trade is nearly 10%.
- The proportion of inter-Arab investment to external investment is 15%.
- The FDI in the Arab region is roughly USD 80.7 billion, while the Arab capital abroad in the international market is more than USD 5 trillion.
- The average annual inflation rate in the Arab region has increased from 1.6% in 2000 to 10.5% in 2008, then reaching 3.6% in 2009 and 4.5% in 2010.
- The unemployment rate in the Arab region surged to more than 18% in 2009.
- The illiteracy rate among adults (15 years and over) grew in the Arab countries during the past years to reach more than 30% in 2010.
- The spending on education is still weak in the Arab world, with an estimated 4% of Gross National Income.

[INTRODUCTION]

This study shows the importance of social stability in the Arab world as a major and vital component in enhancing economic growth and development, as well as national investment climates in the Arab States. This is an important issue given the accelerated events and developments taking place in the Arab region on the political and social levels, with its negative potential repercussions on future economic growth and development in the Arab States that are currently the scene of such developments and events. Quick actions should be undertaken to accommodate its direct and indirect causes and implications. The study also reviews the economic reforms implemented in the Arab world,

which, despite their positive aspects, did not achieve their full objectives, as reflected in the poor integration of the Arab economy in the world economy, the weak intra-Arab economic exchange, and the non-implementation of the Greater Arab Free Trade Area; these besides the reforms' failure in achieving real positive results on the investment and social levels in the Arab world.

The study proposes a set of recommendations that would enhance the economic and social stability, most notably.

- The need to implement clear, transparent and targeted political reforms in the Arab region.
- The need to maintain high economic growth rates.
- Re-assessing policies and models of economic reforms implemented in the Arab countries.
- Making immediate reforms to the national investment climate in Arab countries.
- Adopting Public and Private Partnership programs in the Arab countries.
- Increasing investment spending in education, and implementing policies to match educational outcomes with the labor markets and economic growth needs.
- Working on the implementation of Kuwait Summit 2009 and Sharm el-Sheikh 2011 decisions and outcomes.

[REFORMS PROMOTE GROWTH AND INTEGRATION]

The Arab world has adopted since the eighties, and at a faster pace since the nineties, important economic, financial, commercial and investment reforms in the form of:

First: Developing investment climates, and their enrichment with appropriate incentives and encouragements.

Second: Strengthening the role of the private sector in economic and developmental life.

Third: Encouraging foreign investment and providing appropriate incentives.

Fourth: Adopting privatization programs in some sectors and public utilities.

Fifth: Liberalizing the banking and financial sectors, and increasing their openness to non-national competition.

In fact, these economic reforms have contributed to the achievement of good results on both economic growth and integration among Arab countries, as follows:

First: Promoting real economic growth rates in the Arab world, though they have been affected over certain intervals by emerging regional and international political and economic events. In this regard, the economic growth rate rose steadily from about 2.3% in 2001 to 8% in 2005, reaching 6.6% in 2008, falling thereafter to 4.1% in 2009 due to the global financial and economic crisis that decreased the demand for Arab exports, and diminished net flows of foreign investment and capital, as well as tourism revenues, and at a lesser pace workers remittances from abroad.

GDP GROWTH RATES AT CONSTANT PRICES FOR THE ARAB STATES

YEAR	GROWTH RATE (%)
2000	5.8
2001	2.3
2002	3.0
2003	7.3
2004	7.3
2005	8.0
2006	6.6
2007	5.3
2008	6.6
2009	4.1
2010	5.8

Source: Unified Arab Economic Report 2010.

Second: Activating Arab economic integration, in light of increasing convergence of the current economic systems due to economic reforms, which focused on the growing adoption of "market economy" system, economic freedom, and private initiatives. This combined Arab effort created a free trade zone in 2005, along with the Arab intention to establish an Arab customs union in 2015, and the Arab common market in 2020. There is no doubt that the Kuwait Summit in 2009 and the Sharm el-Sheikh Summit in 2011 constituted an important event in accelerating this Arab integration on the economic level, especially if the liberalization of inter-Arab trade of goods and services, capital and investments, businessmen, investors and employment is matured in the years to come in an active manner. However, the economic reforms that were adopted in the Arab world have not fully achieved the desired economic results, and this is shown in the following key indicators:

- First:** Weak Arab economic integration into the global economy, as the Arab share of global trade, investment and privatization revenues remains at a depressed level of 5-6%.
- Second:** Low inter-Arab economic transactions, as the inter-Arab trade rate to total external trade is at 10%, and the inter-Arab investment rate to external investments is at 15%.
- Third:** Delay in the full implementation of the Greater Arab Free Trade Area, as there are still several constraints facing the full liberalization of inter-Arab trade of goods and services.

The previously mentioned economic reforms didn't have effective implications on the investment, living and social aspects in the Arab world, which will be addressed in the following sections.

[THE NEED TO IMPROVE THE INVESTMENT CLIMATE]

The economic reforms that have been implemented in the Arab world targeted mainly the promotion of investment flow in order to strengthen economic growth at both the national and regional levels. In fact, the results achieved in promoting investment and attracting foreign investments to Arab markets, have remained below desired levels, which reflect the need to improve the overall investment climate in Arab countries. The most prominent indicators are shown in the following:

- First:** The continuous changes in domestic investment laws in some Arab states «Mickmousing», have weakened the confidence of Arab and foreign investors in their investment climate and led to their preference to invest in other markets where the elements of trust and security are available. This is clearly shown in the claims conducted by some Arab investors against the official authorities in some Arab countries, where their investments and funds in these markets are subject to many constraints, obstacles and difficulties.
- Second:** Weak Arab investment when deflated by total national income in the Arab region in general, which is currently around 28%, while it is higher in several regions worldwide. This comes at a time where national savings to the gross national income reached 32%, which explains the persistent current gap in the national resources in the Arab world.

INVESTMENT AND DOMESTIC SAVINGS IN THE ARAB STATES - 2009

COUNTRY	SAVINGS TO GDP RATIO (%)	INVESTMENTS TO GDP RATIO (%)
Arab Countries	31.8	28.5
Jordan	-5.1	37.2
UAE	33.6	34.3
Bahrain	48.9	36.1
Tunisia	21.9	24.8
Algeria	49.4	46.7
Djibouti	-23.7	19.3
Saudi Arabia	35.5	25.5
Sudan	20.4	17.4
Syria	25.1	27.5
Iraq	20.4	26.1
Oman	42.4	30.0
Qatar	54.5	38.9
Kuwait	42.3	13.9
Lebanon	1.5	28.8
Libya	55.6	32.6
Egypt	12.4	19.3
Morocco	21.1	32.6
Mauritania	7.3	25.2
Yemen	7.4	17.0

Source: Unified Arab Economic Report 2010.

Third: Poor attractiveness of foreign capital and investments to the Arab markets, where the share of these markets from international capital flows and investments doesn't exceed 5%, and remained around this level in previous years. If the value of foreign direct investments in the Arab region is currently USD 80.7 billion, the value of Arab capital in the international markets is more than USD 5 trillion. Arab capital abroad has been exposed to all forms of degradation as a result of financial crises, exchange rate crises, and high inflation waves, and others. It could be noted that the recent financial and economic crisis has reduced the Arab foreign wealth by USD 20 billion.

Fourth: Low investment exchanges among Arab states, despite its relatively moderate growth in recent years, but its rate to the total Arab investments in the international market does not exceed 15%.

Thus, the investment climates in the Arab countries still need more effective and radical reforms in order to achieve the desired results at the investment and economic levels. These reforms should focus more on developing the tax laws, improving the treatment of foreign investors, reducing administrative corruption and bribery, accelerating the establishment of investment projects and reducing their costs, among others.

[LIVING AND SOCIAL INDICATORS ... DISTURBING]

The effective and purposeful economic reform contributes to improving the social indicators by increasing per capita income, keeping inflation rates at moderate levels, decreasing unemployment and poverty rates, increasing job opportunities due to economic growth, better distribution of national income, improving social protection and health care, and reducing illiteracy rates, among others.

In fact, the economic reforms that were adopted in the Arab world did not effectively contribute to the improvement of social indicators at the national and regional levels. This is illustrated by the following basic facts:

First: The annual inflation rate rose from about 1.6% in 2000 to 10.5% in 2008, falling thereafter to about 3.6% in 2009 and reached 4.5% in 2010 due to the global financial and economic crisis and its repercussions. It was assumed, in light of the economic reforms and the rising overall growth that the inflation rate to retreat, or in the worst cases to remain at relatively low rates.

ANNUAL INFLATION RATES IN THE ARAB STATES

YEAR	GROWTH RATE (%)
2000	1.6
2003	4.5
2004	5.7
2005	6.2
2006	8.3
2007	7.1
2008	10.5
2009	3.6
2010	4.5

Source: Unified Arab Economic Report 2010.

Second: The fluctuation in the average GDP per capita in the Arab world, ups and downs at different times, instead of an upward trend due to reforms and growth policies. As during the period between 2005 and 2010, this average rate doubled to reach USD 6,000, which hides a significant disparity between the Arab countries, where this indicator accounts for more than USD 60,000 in Qatar and less than USD 1,000 in Mauritania.

AVERAGE PER CAPITA GDP IN THE ARAB STATES

YEAR	RATES (USD)
1995	2,018
2000	2,540
2005	3,705
2006	4,318
2007	4,884
2008	6,002
2009	5,159

Source: Unified Arab Economic Report 2010.

Third: The poverty levels in the Arab world did not decline during the previous years and reached 40% in some Arab countries such as Yemen, Mauritania, Palestine, Somalia, Sudan, Djibouti and Comoros, while it ranged between 10% and 25% in other countries such as Jordan, Bahrain, Syria, Iraq and Egypt. It also ranged less than 10% in the remaining Arab countries such as Tunisia, Algeria, Morocco, Lebanon and the GCC countries.

Fourth: High unemployment rates that have currently reached more than 18%, exceeding unemployment rates in other regions worldwide. The estimated number of unemployed people in Arab countries is currently more than 14 million, and it is likely to increase in the coming years unless new jobs opportunities were effectively created.

ANNUAL UNEMPLOYMENT RATE IN THE ARAB STATES

COUNTRY	YEAR	RATE (%)
Jordan	2009	12.8
UAE	2009	3.9
Bahrain	2009	4.0
Tunisia	2009	13.3
Algeria	2009	10.2
Djibouti	2008	50.0
Saudi Arabia	2009	5.4
Sudan	2008	19.7
Syria	2009	9.2
Somalia	2007	34.7
Iraq	2008	14.7
Amman	2007	6.7
Palestine	2009	21.5
Qatar	2009	0.3
Kuwait	2009	1.4
Lebanon	2007	15.0
Libya	2007	18.2
Egypt	2009	9.4
Morocco	2009	9.1
Mauritania	2009	30.0
Yemen	2008	15.0

Source: Unified Arab Economic Report 2010.

- Fifth:** The need to create new job opportunities in the Arab world at a rapid pace over the following years, where it is estimated that the annual number of entrants to the Arab labor markets is more than 5 million, which is more than 50 million over the next ten years. This requires public and private expenditures on investment projects by more than USD 80 billion in the region during the said period.
- Sixth:** During the past years, the illiteracy rate among adults (15 years and over) grew in the Arab countries to reach more than 30% in 2010, and thus exceeding the regional average in the world, with an exception of South Asia and sub-Saharan Africa regions.

ANNUAL RATE OF ILLITERACY IN THE ARAB STATES -2007

COUNTRY	AVERAGE RATE (%)
Jordan	7.9
UAE	10.2
Bahrain	11.2
Tunisia	19.4
Algeria	24.6
Djibouti	29.7
Saudi Arabia	12.4
Sudan	36.9
Syria	15.5
Iraq	58.9
Oman	15.6
Palestine	5.8
Qatar	5.3
Kuwait	6.0
Lebanon	10.4
Libya	13.2
Egypt	33.6
Morocco	44.2
Mauritania	37.5
Yemen	41.1

Source: Unified Arab Economic Report 2010.

Seventh: Low spending level on education in the Arab world in general, this is estimated at 4% of Gross National Income, while it is higher in many other regions around the world.

PUBLIC SPENDING ON EDUCATION IN THE ARAB STATES 1996 - 2007

COUNTRY	AVERAGE RATE (%)
Jordan	4.3
UAE	1.6
Bahrain	3.1
Tunisia	6.5
Algeria	5.1
Djibouti	7.8
Saudi Arabia	6.7
Sudan	0.8
Syria	5.0
Oman	4.2
Qatar	2.9
Kuwait	3.3
Lebanon	2.7
Egypt	3.7
Morocco	5.6
Mauritania	2.8
Yemen	5.7

Source: Unified Arab Economic Report 2010.

Eighth: Poor distribution of personal income in several Arab countries, where a group of few people dominate the largest part of income, which overtime weakens the middle class that would normally form the backbone of society, and deteriorates largely living and social conditions offered to the poor class.

As a result, the reasons for the growing social instability have become clearer in the Arab world given the above mentioned social facts, which affect mainly the growth rates and economic development, unless appropriate action plans are fastly set to improve social development indicators for Arab citizens.

[ECONOMIC AND SOCIAL PROSPECTS]

The International Monetary Fund and the World Bank estimate economic growth for the Arab region at 4.1% in 2010, and at 5.8% in 2011, which reflects a relative recovery in economic activity in this region. However, the Arab region will face major challenges this year and during the next few years, which are listed as follows:

- First:** The need for transparent, clear and targeted political reforms in the Arab region, in a way that ensures benefits to Arab citizens in their fundamental rights, and from economic and social reforms that follow political reforms.
- Second:** The need to maintain high economic growth rates within the previously mentioned rates in order to ensure no further deterioration in the social and living conditions in the region.
- Third:** Re-evaluating established policies and economic reform models that are adopted in Arab countries, in order to identify strengths to reinforce them, and determine weaknesses to lessen them.
- Fourth:** Conduct immediate reforms in the national investment climate in the Arab countries, in order to create a supportive environment to foreign investment and mobilize national investments.
- Fifth:** Adopting Public and Private Partnership (PPP) programs in the Arab countries, particularly in infrastructure, this would accelerate the investment flows in the region, and will expand job opportunities for new entrants to the Arab labor markets.
- Sixth:** It is important to increase investment spending in education and implement policies to match educational outcomes with the labor markets and economic growth needs.
- Seventh:** Conducting immediate social reforms, particularly those related to social protection systems, health care, the social contracts, and others in order to narrow the gap of wealth concentration.
- Eighth:** Working on the implementation of Kuwait Summit 2009 and Sharm el-Sheikh 2011 decisions and outcomes. This stage requires today more than ever, the establishment of the Arab economic expanded market, which will develop trade and investment exchanges, and will increase job opportunities, given its strategic importance to push the pace of economic and social development in the Arab world.

The Arab world will certainly enjoy peace, security, stability and prosperity, where businessmen and investors, both Arab and international, would pursue again economic and investment opportunities in this region, as they have been over the past years, in light of the growing importance of the Arab region on economic and investment perspectives, and following the large losses suffered by the Arab and global capital in international markets due to the international financial and economic crisis, whose repercussions are not yet matured.

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