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The number of tourist arrivals in the first half of 2016 has risen, but the figure masks many underlying challenges faced by the Lebanese tourism sector. With the absence of Arab tourists, the sector no longer benefits from heavy spenders and Beirut's hotels have not yet regained the high occupancy rates they used to enjoy prior to 2011.

However, rural tourism is still a developing trend that holds some hope for those working in the sector. The cozy restaurants and hotels popping up mostly outside Beirut are proving to be appealing not only to resident Lebanese but also to Europeans and Americans which favor such leisure concepts. According to Mrs. Joumana Kebrit Ghannoum, Director of the Studies, Research and Documentation Department at the Ministry of Tourism, "the Ministry of Tourism cooperates and coordinates with the private sector, as well as with various associations, the academic sector and the civil society to implement the strategic plan for rural tourism in several countryside regions. The plan was launched in 2015 and funded by USAID, in the framework of the LIVE LOVE LEBANON campaign, which aims at achieving balanced development, reducing rural exodus, and developing all kinds of tourism, be it cultural, historical, religious, culinary, sports, and agricultural.

The full effect of the many summer festivals held across the country will be revealed in the second half of the year but The Ministry of Tourism remains optimistic for the remaining part of 2016. Ms. Ghannoum notes that "tourists arrivals are expected to rise particularly during holidays (Eid al-Adha, Christmas, New Year), especially with the upcoming tourism campaign on MBC channel on the occasion of Eid al-Adha, in addition to the relatively stable security situation, which is key to reassuring visitors to Lebanon."

It seems that the efforts led by the Ministry of Tourism have borne their fruits with the number of tourist arrivals rising yet again in the first half of 2016. According to the Ministry of Tourism, the number of visitors to Lebanon in the first half of the year (H1) increased by a yearly 7.70% and totaled 723,105. According to the Ministry, "In addition to producing TV campaigns promoting international and local festivals supported by the Ministry of Tourism across Lebanese regions, the ministry has also sent official delegations during the first half of the year to exhibitions outside Lebanon (Fitur in Madrid, EMITT in Istanbul, ITB in Berlin, MITT in Moscow, ATM in Dubai, WTM in London). The Ministry also supported several local exhibitions, including HORECA in Beirut."

For the second year in a row, European tourists grasped the lion's share of tourist arrivals while Arab tourists were scaled back to second position. In H1 2016, the number of European tourists represented a third of total incoming tourists to Lebanon and increased by a yearly 10.24% to 238,345 by June. According to Mrs. Ghannoum, "During the first half of 2016, a gradual monthly increase in the number of European visitors was observed. The reason for this is the Europeans' attachment to Lebanon's picturesque scenery, and their tendency to visit museums and archaeological sites." Increases were registered across the board with the number of French visitors rising by an annual 8.1% to 60,720 and with visitors from Germany and Sweden also rising by annual rates of 16.73% and 16.13% to 32,646 and 14,878, respectively, by June 2016. The number of visitors from the UK, Italy and Turkey also grew on annual basis by 8.63% to 26,996, by 2.46% to 14,171 and by 6.79% to 11,318, respectively.

The composition of Arab tourists changed, and not favorably so. The travel bans issued by GCC governments against travel to Lebanon have deterred the visits of Arab spenders. In a stark contrast to the period before 2011, the number of visitors from Saudi Arabia, Kuwait and UAE plummeted by respective percentages of 38%, 41% and 64% to 14,415, 9,121, and 1,279 by June 2016. The Arab visitors to Lebanon, such as the Iraqis or the Egyptians, are fleeing insecurity in their own country, using Lebanon as a transit route or looking for a job. As such, the number of Iraqi tourists grew by an annual 20.6% to 98,858, while the number of Egyptian tourists rose by an annual 4.26% to 36,670 by June 2016. However, it is important to mention that **not all** Iraqi incomers are seeking Lebanon for refuge, some can be considered as tourists; According to the Ministry of Tourism, "Iraqis came third amongst Arabs, in terms of hotel occupancy, after Lebanese nationals and Syrians. As for visits to historical sites and museums, Iraqis came second and Lebanese nationals came first."

American tourists who have consistently occupied third place in the composition of tourist arrivals also grew in number during the first six months of the year. The number of American tourists accounted for 18% of total tourist arrivals with the number of visitors from the US and Canada rising from 58,560 and 40,526 by June 2015 to 66,818 and 44,715 by June 2016, respectively.

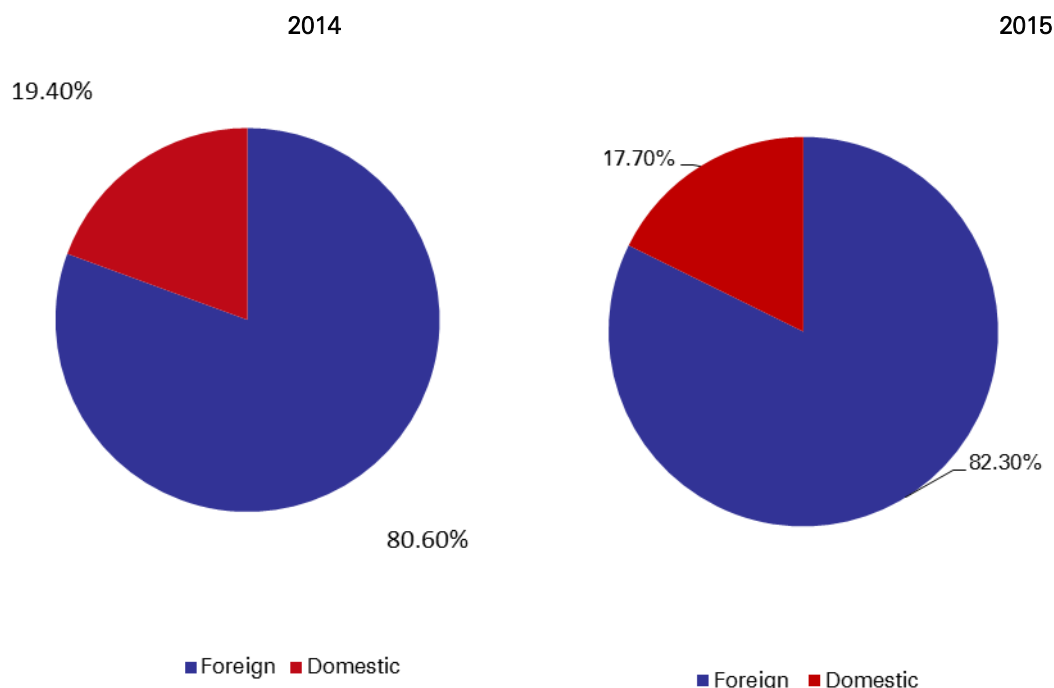
As rural tourism is not accounted for by the hotel occupancy in Beirut and as most Europeans prefer small boutique hotels and guesthouses, the rise in the number of tourists is not reflected in Ernst and Young's (E&Y) hospitality numbers. According to E&Y's Hotel Benchmark Survey, the occupancy rates of Beirut hotels fell from 57% in H1 2015 to 54% in H1 2016. Accordingly, the average room rate dropped from \$164 to \$135 over the same period, the biggest decline amongst Middle Eastern peers. The room yield also declined by an annual 21.7% to \$74.

Data regarding tourist spending also indicates that the decline in the number of large spenders has more than offset the increase in the total number of tourists. The increase in the overall number of tourists masks the fact that tourist spending has actually decreased in the first six months of 2016. According to Global Blue, tourist spending in Lebanon decreased by a yearly 18% in Q2 2016, compared to Q2 2015 and 22% compared to Q1 2016. Data from Global Blue confirms that GCC nationals are the big spenders amongst tourists. Saudi Arabian tourists accounted for the highest share in tourist spending in Q2 2016 with 14%, followed by 13% for UAE nationals and 7% each for Jordanians and Egyptians. Downturns were registered across the board; Tourist spending by Saudi Arabian visitors decreased by 26% in Q2 2016 compared to Q2 2015 while spending by UAE tourists regressed by 21% over the same period. Spending by Jordanians and Egyptian also fell by 19% and 22%, respectively.

Given the extended absence of tourists from GCC countries, the sector is continuing to bet on the rewards of "in-house tourism". Kafalat cements the developing trend of rural tourism by stating that "What has been noticeable this past period, and not just the summer, is the growth in regional tourism; sometimes referred to as rural tourism. Small hotels or rooming arrangements are being built in many places with numerous restaurants alongside or nearby". After consistent declines since 2011, the number of Kafalat guarantees granted to the tourism sector rose from 29 guarantees in H1 2015 to 64 guarantees in H1 2016 which could be a recovery from the low base they reached or as a result of rural tourism projects being carried out recently.

The forecasts of the World Travel and Tourism Council (WTTC) are also aligned with the notion that rural tourism is on the rise. Domestic travel spending is expected to grow by 3.7% in 2016 to LBP 2,607.7bn (\$1.73B), and grow by 5.3% per annum to LBP4, 362.6bn (\$2.89B) in 2026.

Travel and Tourism's Contribution to GDP, Domestic vs Foreign



Source: WTTC, Economic Impact 2015, 2016

In spite of all the challenges, the importance of the tourism sector in the Lebanese economy is undeniable. According to the World Travel and Tourism Sector, the total contribution of the tourism sector to GDP stood at \$9.86B in 2015 and that contribution is expected to grow by 5.3% in 2016. In 2015, the travel and tourism industry directly and indirectly supported 327,000 jobs and this is expected to rise by 4.4% in 2016 to 341,000 jobs. Unfortunately, we are unlikely to see tourist arrivals to Lebanon rising to their pre-2011 levels before the Arab region starts to witness some stability. Locally, the resurgence of the garbage crisis has a high probability of negatively affecting tourist inflows in the second half of the year.

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