Lending Activity in Lebanon: Steady Performance in 2017

BLOMINVEST BANK

December 01, 2017

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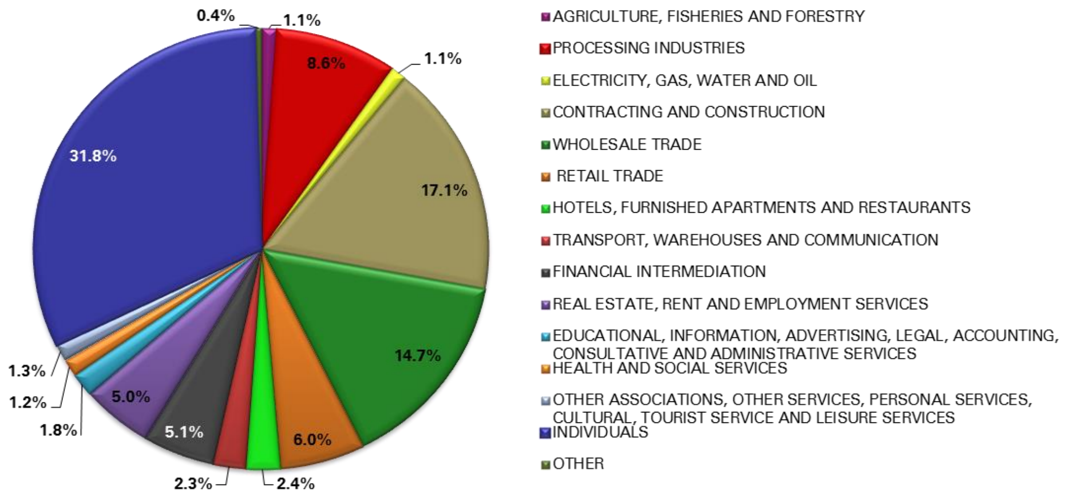
In line with the previous years, Lebanese banks preserved their role as buffers against the recurring headwinds of an uncertain economy. As a matter of fact and despite the existing low growth environment, banks remained the economic growth's last resort providing continuous support for the country's consumption and investment activities.

In this context, tackling lending activity in Lebanon highlights the robustness of the Lebanese banking sector amid persisting political and economic uncertainties. In reality, the private sector's business conditions kept on deteriorating as reflected by Lebanon's Purchasing Managers' Index (PMI) that averaged 46.8 points in the first three quarters of 2017, standing well below the 50-points mark, separating economic growth from contraction. Still, according to the Central Bank's latest data, the total value of credit provided by the Lebanese banks to the economic sectors reached $66.92B in September 2017, increasing by 4.2% since year start and at around 127% of 2017's estimated[1] Gross Domestic Product (GDP).

In a country where capital markets are still unfledged, lending activity of the Lebanese banks provides a glimpse on the main sectors that were actively seeking financing during the first nine months of 2017. In details, individual loans maintained their lion share of the total at 31.8% trailed by contracting and construction loans (17.1% of the total) and wholesale trade loans (14.7% of the total). Sectors related to the processing industries, retail trade, and financial intermediation respectively grasped 8.6%, 6.0%, and 5.1% of the total loans. In addition, 5% of the total value of the allocated credit went to real estate, rent and employment services.

Distribution of Credits by Economic Sector (Up to September 2017)



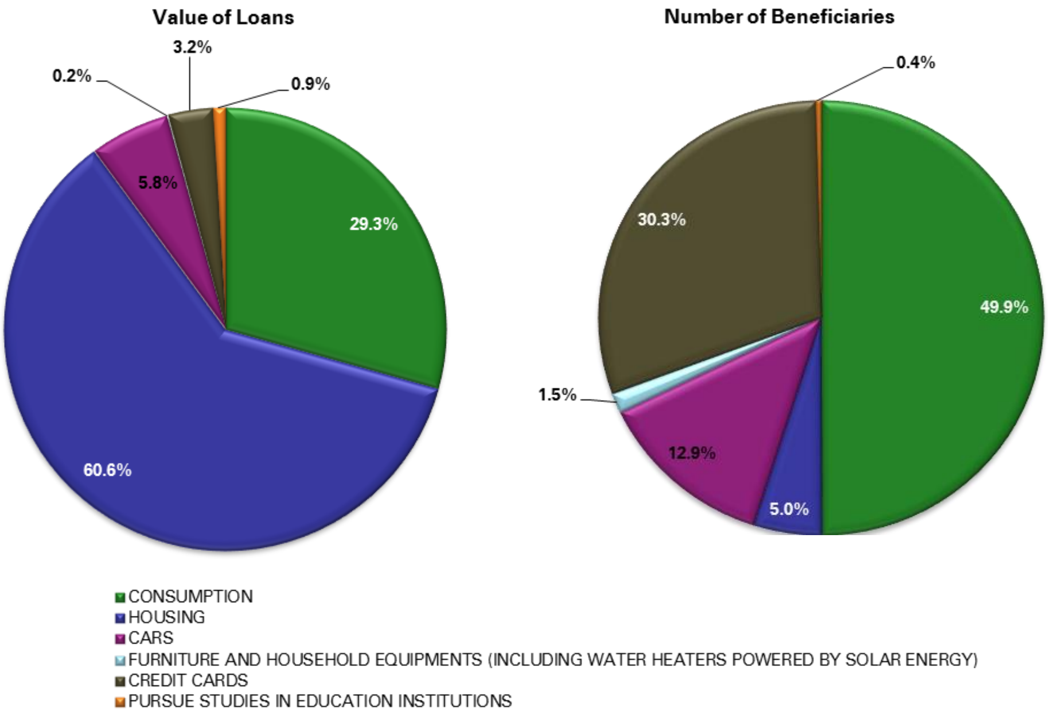
Source: Banque du Liban

[1] International Monetary Fund (IMF) Estimate, World Economic Outlook, October 2017.

Loans to Individuals: Upward Trend Across all Sub-Categories

Starting with the loans to individuals, banks granted in the first three quarters of 2017 a total value of $21.25B compared to $19.68B in 2016. Housing loans were on top of the credit allocated for individuals with a share of 61% of the total. These loans recorded a 9.8% year-to-date (y-t-d) rise up to September 2017 and are expected to rise further in the coming period as a result of Banque du Liban's (BDL) Circular #473 that was released in October 2017. Based on the circular, the ceiling on the amount of subsidized housing loans has been upped from a previous LBP 800 million (around $530,679) to LBP 1.2 billion ($796,020). The Central Bank added that the borrower is not allowed to benefit from other credit facilities to finance the housing unit for which he contracted the loan. As for apartments under construction, the borrower may, only once, increase the value of the loan, all while respecting the new ceiling mentioned above.

Composition of Individuals Loans (Up to September 2017)



Source: Banque du Liban

Consumption loans came second and constituted 29% of individual loans while car loans took up 6% of the total. As reflected by the 7.9% y-td growth in consumption loans, reliance on loans amongst individuals to finance their daily needs seem to be rising. When it comes to car loans, and even though they maintained their third rank, a shy 0.6% y-t-d progress was recorded by September 2017. This can be explained by the fact that cars are still considered as secondary needs

As for credit cards, they accounted for 3.2% of total individual loans and witnessed a y-t-d increase in value of 6.4% to $684M. The latter can also be confirmed by the 5.3% y-td uptick in the number of outstanding credit cards in August 2017 that reached 583,827.

Contracting and Construction Loans Reflected the Industry's Slowdown

The reigning uncertainty in Lebanon kept on hindering investors' appetite for new real estate projects, which was also mirrored by a slower lending activity in the construction and contracting segment. In reality, the value of loans granted for the contracting and construction sub-category revealed a minimal drop of 1.2% since year start to $11.42B. This came in line with a 2.90% y-o-y drop in total number of construction permits over the same period that highly confirmed the lack of investment appetite, bearing in mind that permits are usually issued at least 6 months after applications are filed and the execution of a permit is valid up to five years from the date of issuance.

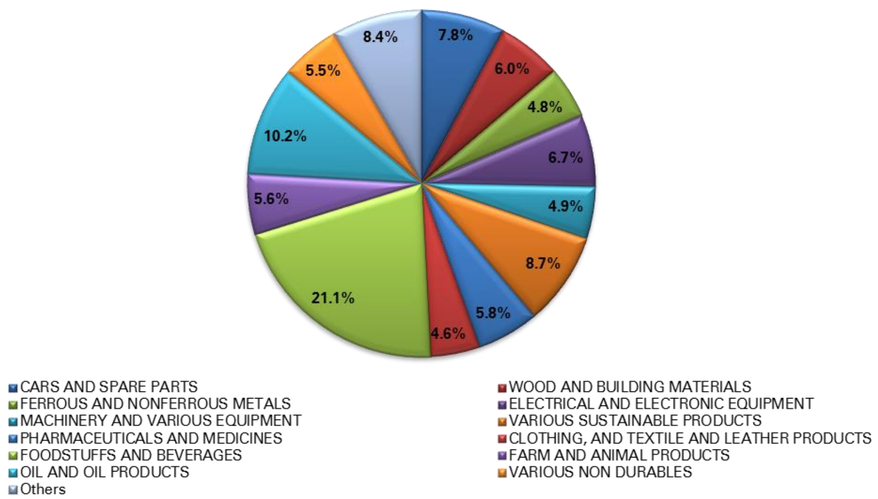
The breakdown of contracting and construction loans reveals that general contractors, commercial buildings contractors and residential buildings contractors grasp 90% of total loans' value within the category. In details, general contractors were the main beneficiaries by September 2017 with a 34% share of the total and were followed by commercial buildings contractors and residential buildings contractors that also took considerable shares of 32% and 24%, respectively. Amongst these three types of contractors, loans for residential contractors were the only ones to rise since year start and record an 8.8% y-td rise to $2.7B. However, this increase was not enough to offset the respective 6.1% and 1.7% y-t-d downticks in loans granted for general and commercial contractors to $3.88B and $3.65B.

Despite the recorded slowdown in the value of contracting and construction loans, the number of beneficiaries grew by 10.4% over the same period. This probably indicates that the newly granted loans in the first nine months of 2017 were of a smaller size than the maturing ones, meaning that the majority of borrowers were more oriented towards smaller construction projects that require relatively smaller investments.

Wholesale Trade Loans: Basic Necessities behind the Steady Progress

The third largest category amongst loans granted by the Lebanese banks between January and September 2017 was wholesale trade. The total value of loans went up by a y-t-d 6.7% to settle at $9.87B. Considered as the biggest category among industrial firms, foodstuffs and beverages loans took the lion share of 21.1% of total wholesale trade loans. In addition, these loans edged up by 18.3% on a y-t-d basis to reach $2.08B. Similarly, loans for oil and oil products witnessed a 28.4% y-t-d rise to $1.01B, reflecting the continuous recovery in international oil prices.

Composition of Wholesale Trade Loans (Up to September 2017)



Source: Banque du Liban

Finally, lending activity in Lebanon keeps on confirming the Lebanese banks strong ability to survive and absorb political and economic shocks. However, boosting consumption and investments should top the priorities of concerned authorities. Empowering and developing capital markets are also a must and their important financing role should be highlighted to encourage Lebanese businesses, which are mostly family businesses, to embrace the new financial wave.

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