

Lebanon's Lending Activity in 2013: Resilience amidst Tough Climate



**BLOMINVEST
BANK**

Over the course of 2013, the Lebanese economy faced critical operating conditions. The macroeconomic backdrop was rattled by recurrent security incidents and political deadlocks on one hand and by spillovers from war-ridden Syria on another hand. Consequently, the International Monetary Fund (IMF) lowered Lebanon's growth projection to a subdued 1% in 2013, making it one of the slowest amidst MENA countries.

March 15, 2014

Contact Information

Research Assistant: Riwa Daou
riwa.daou@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 743 300 ext:1256

Subsidized loans	Dec 2013, \$M	2013- 2012	2012- 2011	2011- 2010
Total Subsidized loans (A+B+...)	529.66	-22.3%	-25.3%	28%
Industry	273.85	-24.7%	-24.0%	2%
Tourism	183.06	-23.4%	-30.3%	91%
Agriculture	72.76	-8.2%	-13.6%	41%
A- Subsidized-Medium & Long Term Loans	407.65	-24.9%	-26.0%	36%
Industry	214.44	-27.0%	-24.1%	4%
Tourism	157.77	-23.8%	-30.5%	105%
Agriculture	35.44	-14.7%	-13.3%	101%
B-Subsidized-Interest Loans guaranteed by Kafalat	115.51	-13.7%	-16.5%	0%
Industry	53.18	-17.4%	-14.7%	-11%
Tourism	25.01	-21.2%	-22.7%	20%
Agriculture	37.32	-0.9%	-13.9%	6%

Source: Banque du Liban

Despite the low growth environment, lending activity still managed to advance in 2013, due to the Central Bank's stimulus package and due to commercial banks' ample liquidity. Zooming-in on this facet of the economy is a must, especially since Lebanon had the 20th highest loan penetration in the world in 2012, according to the IMF.

The private sector wasn't at bay from the eco-political turmoil as reflected by the BLOM Lebanon PMI readings. The index was tightly hanging on to the 50-points mark separating economic expansion from contraction in May 2013, when data collection began, but dropped well below that threshold to reach 44.7 in January 2014.

However, the accumulated surpluses in the Balance of Payments (BoP) prior to 2011, allowed Lebanese banks to be endowed with large liquidity and assume their role of chief financiers for both the public and private sectors. Hence, commercial banks delivered an annual 9% growth in total assets amounting to \$164.82B in 2013, as opposed to a growth rate of 8% last year. The healthy balance sheet results came about as total private loans, representing 29% of total assets, grew by 9% y-o-y to \$47.38B and as claims on the public sector, representing 23% of total assets, advanced by 21% y-o-y to \$37.67B.

Claims on the resident private sector, accounting for 25% of total assets, grew by 10% to \$41.50B. Dollar denominated private loans advanced by 8% to \$30.39B while those denominated in Lebanese pounds (LBP) rose by 14% to \$11.12B. Local currency loans registered a more pronounced progression, as a result of BDL's endeavors to tame the dollarization rate of loans, which has steadily decreased from 80.3% in 2010 to 76.5% in 2013. Meanwhile claims on the non-resident private sector progressed by 5% in 2013 to reach \$5.88B as opposed to a growth rate of 9% in 2012.

The Central Bank's (BDL) statistics regarding total credit facilities granted in the financial sector, offer insight on the loans' sectorial distribution. Loans to individuals grasped the lion share of total loans with a 27.84% stake, followed by Contracting & Construction with 17.35%, Wholesale Trade with 14.93% and finally Processing Industries with 10.33%. All categories recorded double-digit y-o-y growths except for Processing Industries due to a pronounced 36.8% decline in the "Tobacco, Tombac and cigarettes" category.

Credit facilities destined for individuals advanced by an annual 14.66% to reach \$14.73B in 2013. The value of consumption and housing loans, the largest two sub-components grew by 12% and 17% to \$4.17B and \$8.53B, respectively.

In fact, BDL took several initiatives to revive economic growth. On January 14, 2013, BDL issued Intermediate Circular 313, announcing a stimulus package worth \$1.47B. The funds were put at the banks' disposition at a 1% interest rate, in order for them to offer further support to housing projects as well as small and medium enterprises.

In the intermediate circular #340, legal reserves were scaled down by up to 80% against housing loans from "Banque de l'habitat"/Housing Bank. In late 2012, Intermediate circular #311 widened the lending scope by raising the permitted ceiling on banks' credit facilities both locally and abroad.

Aside from BDL's incentives, housing loans continued to grow as real estate is considered to be a form of investment for individuals and as it often entails large down payments.

Credit facilities granted to residential and commercial building contractors posted 19% and 14% y-o-y growths in spite of the slowdown in construction activity. According to data released by the Orders of Engineers in Beirut and the North, the number of issued permits declined by 8% in 2013 from 18,193 in 2012 to 16,724 in 2013 .

In the field of wholesale trade, the most pronounced upturns were registered in the sub-sectors of Pharmaceuticals and Medicines (37%) as well as oil and oil products (22%). This may have been brought about by the heavy influx of Syrian refugees into the country which places upward pressure on basic services such as health and energy.

As for processing industries, it was the only category which did not post a double-digit y-o-y growth. This was the result of a pronounced 36.8% decline in the "Tobacco, Tombac and cigarettes" category. However, the industry concerned with meat stuff, food and beverages as well as that concerned with textiles and fabrics compensated with upturns of 10.3% and 25.2%, respectively. These increases may not have stemmed from more vivid local demand but rather from the inflow of Syrian refugees.

Nevertheless, as the tourism sector slowed substantially in 2013, lending destined for this sector followed the same path. According to the Ministry of Tourism, tourist arrivals fell by 91,483 or 6.7% in 2013 to reach 1,274,362. The sector's subdued activity is a direct consequence of the internal and regional instability. Especially as travel bans for Arab tourists, a vital component for the industry, were renewed on several occasions during the year. Therefore, credit facilities extended to personal, cultural, leisure and tourist services dropped by 21.24% in 2013.

Being aware of the rough patch witnessed by key economic sectors such as tourism, BDL sought to boost economic activity through subsidized loans.

In fact, BDL offers subsidized loans in two forms. Either the BDL reimburses the bank with part of the interest charged or it frees up the banks' liquidity through reduction or exemption of its legal reserves.

In this line of thought, the BDL issued intermediate circular #349 in December 2013, according to which the BDL grants facilities to banks at 1% against various loans subsidized or steered towards productive sectors, environmentally friendly initiatives or housing.

As for Intermediate circular #340, it extended the duration of subsidized loans from 7 to 10 years.

In spite of these endeavors, 2013 marked a sharp decline in the value of new subsidized loans. The latter, fell by an annual 22.3% to \$529.66M in 2013 compared to a more pronounced decline of 25.3% in the period 2011-2012 when the Arab spring erupted.

In 2013, the industrial sector took up 52% of total subsidized loans followed by shares of 35% and 13% for the tourism and agricultural sectors. Subsidized loans to the industrial sector posted the biggest annual drop of 24.7%, closely followed by slips of 23.4% and 8.2% in loans destined for the tourism and agricultural sectors.

The downward trend was also witnessed in the number of Kafalat guarantees. Kafalat, which provides financing for small and medium enterprises (SMEs), issued 871 guarantees in 2013 compared to 1025 in 2012. Accordingly, the overall value of Kafalat loans plummeted by 14% from \$137.92M in 2012 to \$118.16M in 2013.

Kafalat loans to the industrial and tourism sectors fell from 392 and 177 in 2012 to 293 and 142 in 2013, respectively. Meanwhile, the geographical allocation showed that regions which usually grasp the biggest stake of Kafalat loans, witnessed the largest drop in investor confidence. Kafalat loans in the North, which has been shaken by recurrent security clashes across the year, registered a 29% annual decline to 99 followed by slips of 18% and 15% in Mount Lebanon and South Lebanon to 348 and 117, respectively.

The BDL branched out and sought to revive the economy via alternative channels. Through Circular #331, the BDL allowed banks to step in to finance startups, venture capital firms, incubators and accelerators working in the knowledge economy, not through usual debt, but this time through equity. Nevertheless, only the year ahead can unravel just how efficient this decision has been.

One thing is however certain, the banking sector is still fueled with enough liquidity to provide financing for the private and public sectors, without sacrificing one for the other.

Banks stepped in once again as chief financiers of public debt. In fact, lending to the public sector advanced by 21% in 2013 compared to 7% in 2012. Claims on the public sector amounted to \$37.67B in 2013, with holdings of treasury bills in LBP edging up by 11% to \$19.98B and holdings of Eurobonds increasing by 35% to \$17.61B.

However, a continuous increase in the fiscal deficit might take up more resources from the banking sector and start to crowd out the private sector. The government's fiscal deficit widened by 31.4% to \$3.52B by October 2013, with aching growth pulling revenues down and with the heavy influx of Syrian refugees lifting the government's expenditures.

Moreover, the BoP, a reflection of the change in the BDL and commercial banks' net foreign assets, has now recorded its third annual deficit of \$1,128.7M in 2013 compared to a deficit of \$1,536.9M registered last year.

Looking ahead, the BDL launched yet another stimulus package for 2014 worth \$800M, with a special focus on housing loans. Although BDL's incentives, the commercial banks' cautious strategy and ample liquidity offer great support to the economy, political stability remains an inescapable condition for robust and long-term growth.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department
Verdun, Rashid Karamah Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 743 300 Ext: 1283
research@blominvestbank.com

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 743 300 Ext: 1234

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.