Lending in 2014, a Reflection of the Overall Economy

BLOMINVEST BANK

Since 2011, Lebanon has witnessed slower GDP growth as key sectors of construction, real estate and tourism suffered the ripples of the neighboring Syrian war and of the local political gridlock. The government saw its budget deficit widen, rendering it unable to intervene and spur growth, the Keynesian way. The private sector outlook was also dampened as shown by the BLOM Lebanon Purchasing Managers' Index (PMI), which remained below the 50 points mark separating economic expansion from economic recession for 23 months out of 25 months during which data collection took place.

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Contact Information

Research Assistant: Riwa Daou

riwa.daou@blominvestbank.com

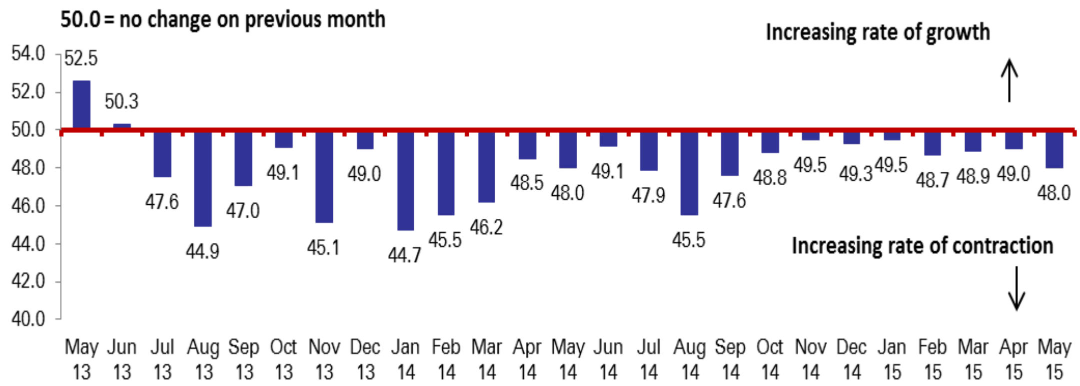
Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784

BLOM Lebanon PMI Historical Readings



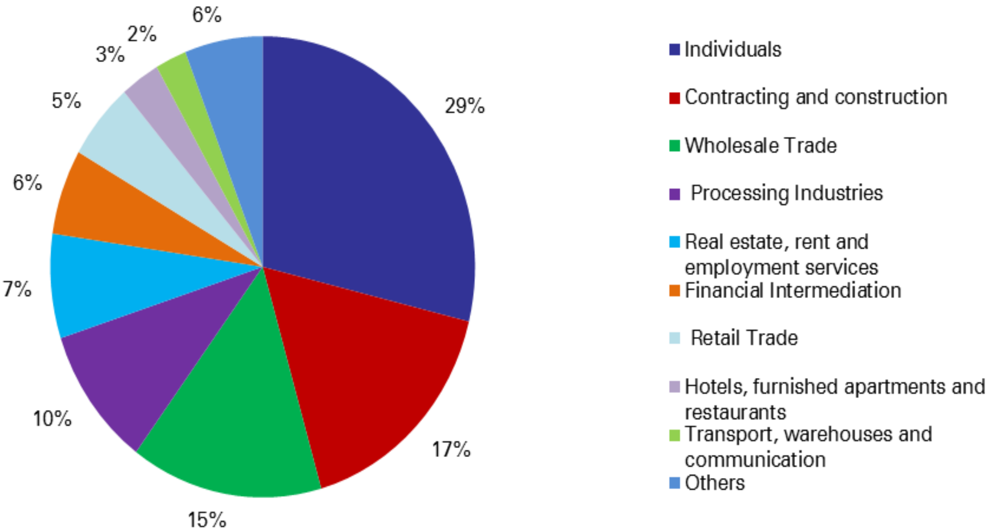
Source: Markit, Blominvest Bank Research

The slowdown in the growth rate of loans granted in the financial sector is mirroring the slowdown of the overall economy. Since loans granted in the financial sector represent over 100% of GDP, their importance is undisputable. The following lines detail the evolution of these loans by sector during 2014, the fourth tough year on Lebanon's economy.

According to the Central Bank of Lebanon, the totality of loans granted in the financial sector grew at slower pace in 2014. The growth rate of the value of outstanding loans stood at 8.53% in 2013 and then slowed to 8.37% in 2014 to $57.35B.

The detailed breakdown of these loans allows us to see which sector benefits the most from credit facilities handed by Lebanese financial institutions. Individual loans still grasped the lion's share of loans in 2014 as they constituted 29% of the total, followed by 17% for contracting and construction, 15% for wholesale trade, 10% for processing industries, 10% for real estate, rent and employment services, 6% for financial intermediation, 5% for retail trade, 3% for hotels, furnished apartments and restaurants and finally 2% for transport, warehouses and communication.

Sectorial Compositions of Loans Granted in the Financial Sector – 2014



Source: Central Bank of Lebanon

Individuals Loans, reflecting the slump in the overall economy

The largest component of the overall loans granted in the financial sector is individual loans with a share of 29% of the total and a value of $16.52B in 2014. The growth of individual loans slowed from 14.66% in 2013 to 12.18% in 2014. Slower growth in this category of loans is not surprising due to two elements: First, the subdued consumer appetite for durable and non-durable goods and second, the stricter regulations on retail loans.

The Central Bank of Lebanon has imposed tighter regulations on overall retail loans which have occupied a sizeable share in the credit sphere over the past few years. The share of retail loans in total loans surged from 17% in 2008 to 29% in 2014 and BDL's circular # 369, which was applied to all retail loans granted after 01/10/2014, aims to cap that growth and reduce risk.

According to the circular, a car or housing loan intended for the purchase of a car or the first home must not exceed 75% of the good's price leaving a 25% down-payment for the debtor. The circular also adjusts the cap placed on cumulative monthly payments related to retail loans. The cumulative monthly payments for all retail loans must not exceed 45% of the household's monthly income, defined as the husband and the wife's monthly revenues. For housing loans, the cumulative monthly payments must not exceed 35% of the household's income.

These new rules have been applied only during the last few months of 2014 but the morose economic environment has been consistently present throughout the year. Therefore, for 2014 the impact of subdued consumer appetite topples the effect of tighter regulations on retail loans.

The top individual loans are those destined for housing with a stake of 60% in total individual loans followed by a 27% stake for consumption loans, 9% for car loans, 3% for credit card loans and 1% for student loans. A slowdown was notable amongst all the sub-categories of individual loans.

Housing loans amounted to $9.88B in 2014, with their growth rate easing from 17.4% in 2013 to 15.75% in 2014. However, it is worth noting that the current growth seen in housing loans is not reflective of the current demand for housing loans. In fact, this growth reflects home-purchase commitments made 3 to 4 years earlier, when the real estate sector was in a better state, but that are being delivered now. Since there is a time-gap between the time when the purchase commitment is made and when the housing project is delivered, the evolution of housing loans in the next few years will convey the current slump in the real estate sector.

On the other hand, consumption loans and car loans portray the state of current demand in a timelier manner than housing loans since there is no large time gap between the time when the purchase decision is made and the time when the purchased good is acquired. Consumption loans, reflecting purchase decisions taken on the spot during the year, amounted to $4.42B in 2014, as their growth was slashed by half from 12.5% in 2013 to 5.92% in 2014.

Car loans already registered a minor 0.1% growth rate in 2013 but eventually ended up contracting by 2.89% in 2014 to reach $1.49B. Since the car sector is considered as a durable-goods sector, it is directly affected by an overall weak economic feel as consumers shy away from purchases requiring long term engagements and that eat away at a substantial chunk of their budget. The Association of Car Importers in Lebanon linked the slump witnessed in the car sector in 2014, when the total number of registered new and imported used cars dropped by 3% in comparison with 2013, by 8% in comparison with 2012 and by 11% in comparison with 2011, to the tighter regulation imposed on car loans by the Central Bank.

Credit card loans amounted to $569.95M in 2014 and their growth slowed slightly from 57.8% in 2013 to 55.97% in 2014. Most probably, the increase in credit card loans is due to higher use of credit cards as a payment method rather than a result of higher consumption. Credit card loans may also be acting as a substitute to consumption loans. As for loans taken to purse studies in educational institutions, they grew at a pace of 57.8% in 2013 and 55.97% in 2014 to reach $132.04M.

Contracting and Construction, Mirroring the State of the Sector

The past four years have been tough on the overall economy and on the key sector of construction in particular. The number of real estate transactions reached its slowest levels since 2011, slumping to 16,663 in 2014. This slowdown was bound to be reflected on the loans granted for contracting and construction which registered a double-digit growth of 13% in 2013 and a slower growth of 5% in 2014 to reach $9.6B. The slowdown in the growth rates was observed across the board, be it in terms of general contracting, residential contracting or commercial contracting.

Combined, the housing and, contracting and construction loans represent a substantial share of 34% in the total of loans granted in the financial sector. The growth rate of this combined entity, which reflects the overall real estate sector, has also slowed from 15% in 2013 to 10% in 2014.

Wholesale Trade

Loans destined for wholesale trade represent 15% of the total loans granted in the financial sector and amounted to $8.38B in 2014. Like individual loans and contracting and construction loans, the growth rate of wholesale trade loans decreased from 12.7% in 2013 to 6.10% in 2014
Amongst wholesale trade loans, the loans destined for food and beverages constitute the largest share of 19%, followed by a 10% share for oil and oil products, 8% for ferrous and non-ferrous metals, 7.4% for cars and spare parts, 7.2% for wood and building materials and 7.2% for electrical and electronic equipment.

Loans granted for foodstuffs and beverages, which amounted to $1.58B in 2014, saw their growth drop from a double-digit 13.8% in 2013 to 6.80% in 2014. Likewise, the growth in loans handed to the electrical and electronic segment slowed from 9.10% in 2013 to 7.26% in 2014. As for the growth rate of loans given in the oil segment, it slumped from 22.30% in 2013 to -2.31% in 2014.

Slight upturns were registered by loans granted in the wood and building materials segment, which grew by 5.19% in 2014 compared to 2.50% in 2013. Meanwhile, loans in the metals segment grew substantially from 17.90% in 2013 to 33.72% in 2014 and loans for cars and spare parts recovered from a drop of 8.40% in 2013 to a 1.77% growth in 2014.

Retail Trade

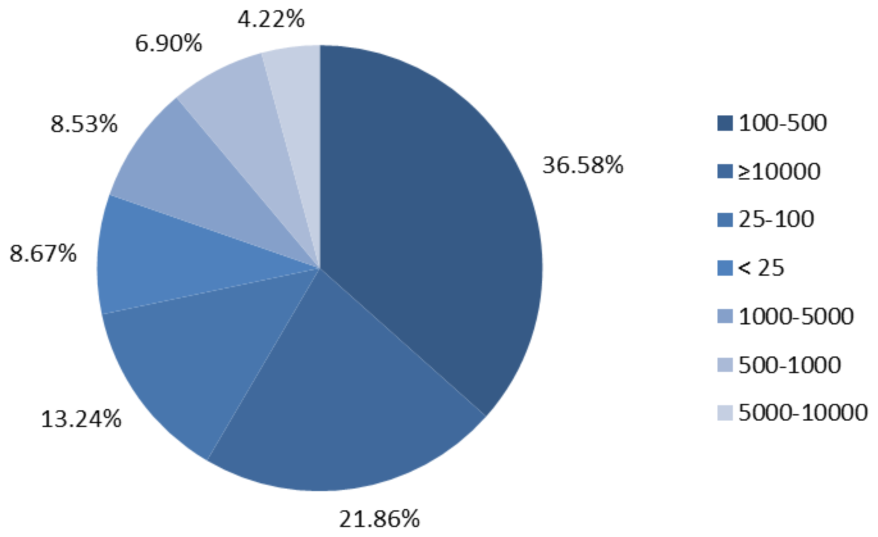
The slump in the leisure and tourism sectors was also mirrored in the lending activity. In fact, loans granted for restaurants, coffee shops, nightclubs and pubs had already declined by 0.8% in 2013 but this decline was amplified in 2014 with a decline of 14.46%, bringing the total amount of these loans to $180.88M in 2014.

The lending activity across all segments posted a slowdown in 2014 due to a subdued economic environment. However, the Central Bank continues to provide support for the economy with its stimulus packages. The year 2015 will benefit from a third stimulus package worth $995M (including funds revolved from 2014).

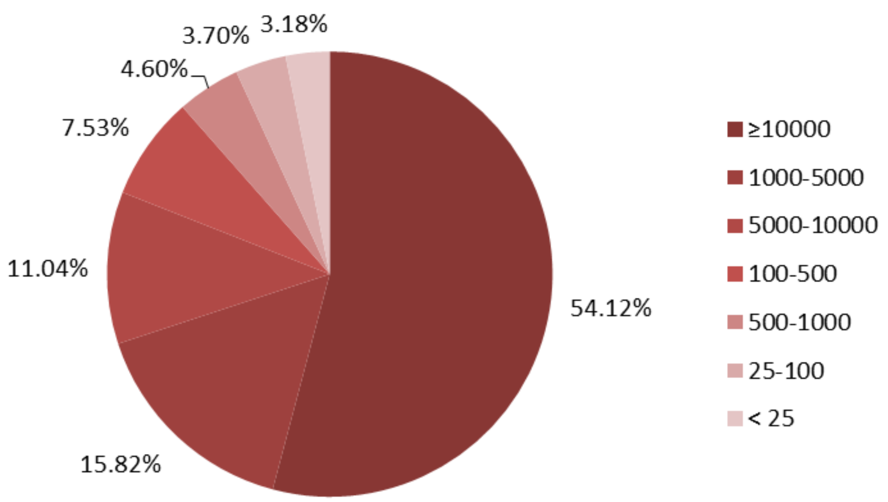
Composition of Loans by Bracket

Credit to the Private Sector by bracket as of 28/02/2015, in millions of LBP

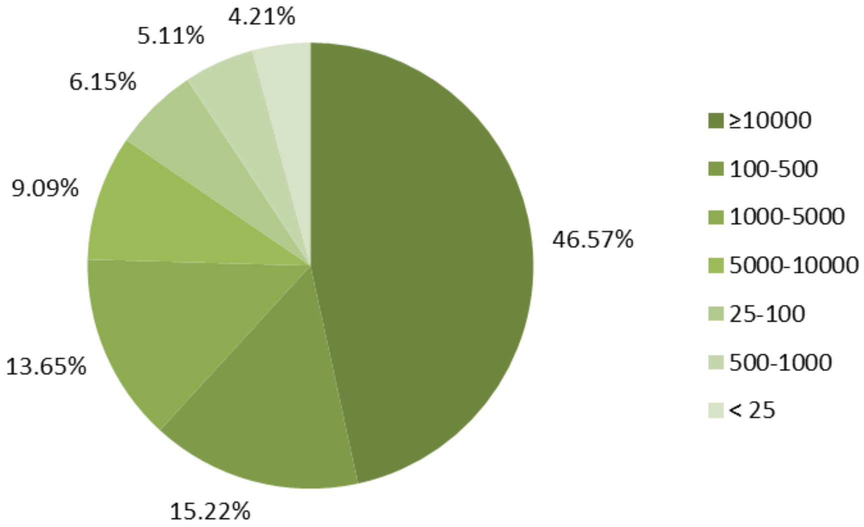
Composition of Credits in LBP



Composition of Credits in Foreign Currency



Composition of Credits in LBP and Foreign Currency



Source: Central Bank of Lebanon

According to the Central Bank, the composition of loans in terms of amounts differs depending on whether the loans are denominated in local currency or foreign currency.

Private sector loans denominated in Lebanese Pounds show the highest concentration of 36.58% in the bracket of LBP 100-500M, followed by 21.86% for the bracket of loan amounts above LBP 10,000M and 13.24% for loans in the bracket between LBP 25-100M.

As for private sector loans denominated in foreign currency, the highest concentration is registered in the bracket of loan amounts exceeding LBP 10,000M with a share of 54.12%, followed by a 15.82% for the bracket of LBP 1,000-5,000M and 11.04% for the bracket of LBP 5,000 – 10,000M.

For the totality of loans to the private sector (local and foreign currency combined), the highest concentration of 46.57% is registered in the bracket of loan amounts exceeding LBP 10,000M, followed by a share of 15.22% in the bracket of LBP 100-500M and 13.65% for the bracket of LBP 1,000 – 5,000M.

For your Queries:

BLOMINVEST BANK s.a.l.
Research Department
Verdun, Rashid Karameh Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Riwa Daou, Research Assistant
Riwa.daou@blominvestbank.com
+961 1 991 784

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 991 782

research@blominvestbank.com