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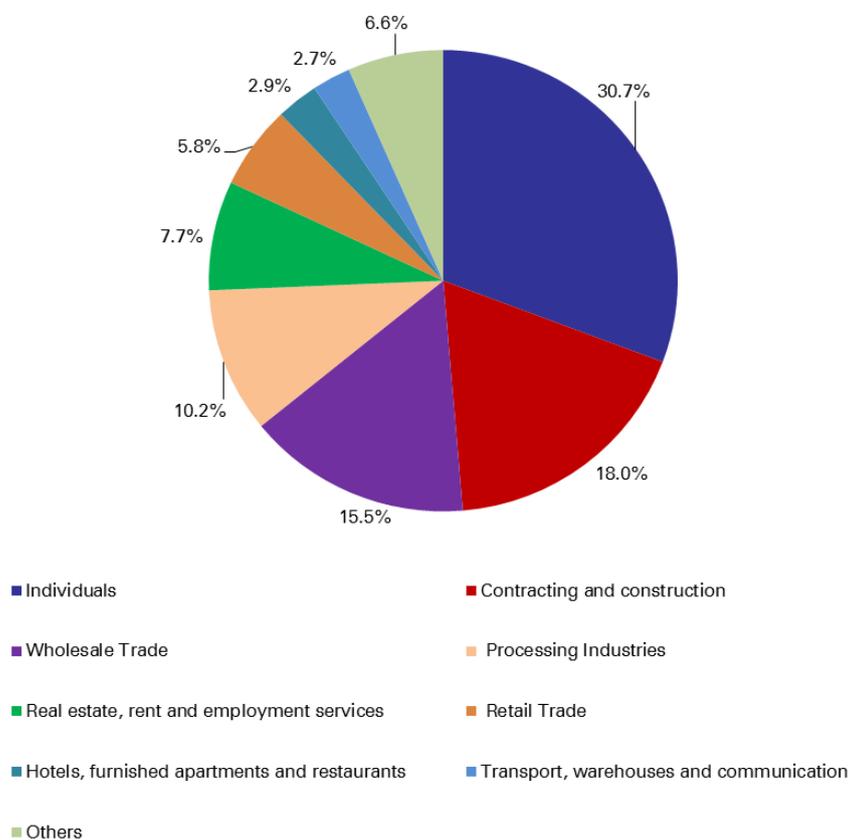
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The Lebanese economy is a "credit economy" where the function of financial intermediation takes center stage. Up to July 2015, the totality of loans granted in the financial sector constituted 110% of GDP. The value of these loans amounted to \$55.66B in the first seven months of the year and the 3.23% year-to-date growth of these credits even exceeded 2015's expected GDP growth of 2%.

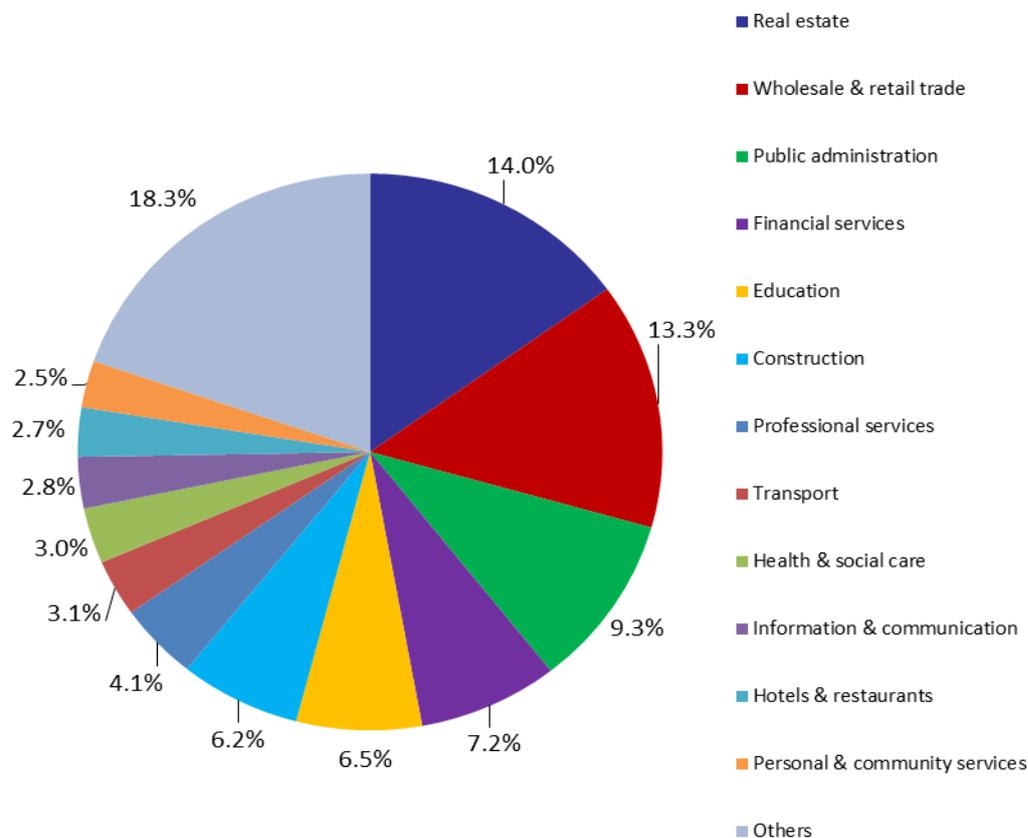
The biggest sectors benefitting from loans are the same ones that are contributing the most to Lebanon's GDP. Loans for housing and real estate services make up 25% of total loans granted in the financial sector and at the same time the real estate sector is the single largest generator of value added in the country with a share of 14% of GDP in 2013. Wholesale and retail trade loans account for 21% of total loans and are also the second largest contributors to GDP with a share of 13%. Contracting and Construction loans constitute 18% of total loans and at the same time add 6% to Lebanon's GDP. Loans for the transport sector represent 3% of total loans and similarly represent 4% of GDP. Loans to Hotels and restaurants represent 2% of total loans and represent a share of 3% in GDP.

Sectorial Composition of Loans Granted in the Financial Sector, Up to July 2015



Source: Central Bank of Lebanon

Contribution of Sectors to GDP



Source: Central Administration of Statistics, National Accounts, 2013

There is a dual causality in the relationship between the contribution of these sectors to the economy and the loans that are disbursed in these sectors. Credit would not have poured into these sectors had they not presented potential for growth and in turn these sectors would not have grown without access to and availability of financing. Moreover, supportive policy measures for these sectors are a key factor that nurtured them to growth and in turn increased their demand for financing. The supportive measures that were put in place for the housing sector are a vivid example. The latter benefitted from the Central Bank of Lebanon's subsidized loans and from longer maturities repayment policies.

Individual Loans Take the Lion Share in the Financial Sector

Mostly, the loans granted in the financial sector are oriented towards individual consumption and housing rather than infrastructure and large investment projects. In the first seven months of 2015, individual loans accounted for 30.7% of total loans granted in the financial sector. Housing loans still account for the largest bulk of 61% of individual loans, followed by shares of 27% for consumption, 8% for cars, 3% for credit cards and 1% for loans contracted for student loans.

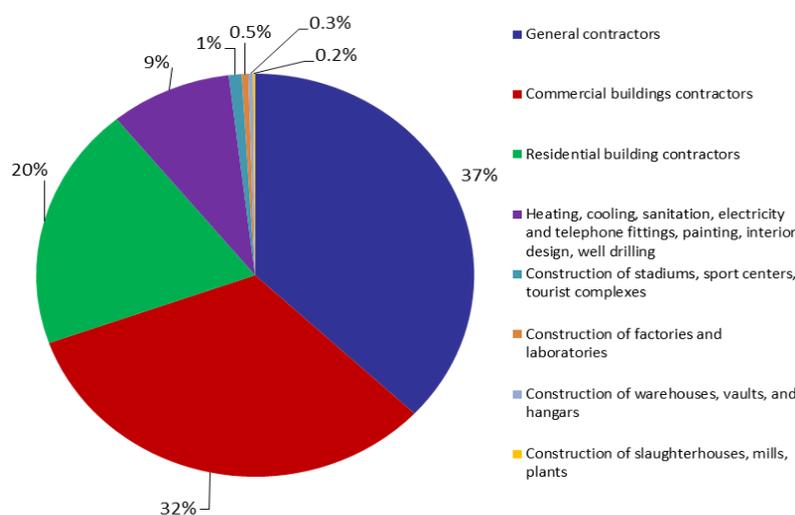
Up to July 2015, the upturns in the value of housing and consumption loans topped the decline in the value of car loans. The value of individual loans rose by 3.52% since year start to reach \$17.11B. This rise was mainly due to 5.29% increase in the value of housing loans to \$10.4B and by the 3.62% year-to-date increase in consumptions loans to \$4.6B. The higher value of housing and consumption loans offset the decline in the value of car loans. The latter fell by 6.67% since year start to reach \$1.4B. The slump in the demand for car loans already started back in 2014 and was mostly affected by the overall weak economic growth. In 2015, the effect of the Central Bank's tighter retail loans regulation is added to the mix and deters consumers from contracting loans for car purchases.

Construction, a Key Sector in the Lebanese Economy and Second Largest Loan Beneficiary

According to the Central Administration of Statistics' National Accounts, construction activity is the third most important contributor to GDP in Lebanon with a share of 6% in 2013. The weight of the construction sector in the Lebanese economy is also reflected by the fact that construction loans are the second biggest in value in the financial sector. According to the Central Bank of Lebanon, contracting and construction loans made up 18% of the total loans granted in the financial sector up to July 2015. The value of these loans amounted to \$9.99B, rising by 4.08% since year-start.

It is worth mentioning that the increase in the value of construction loans does not reflect an improved activity in the sector. By July 2015, the number of construction permits slumped by a yearly 14% to a six-year low of 8,652. The construction area authorized by permits (CAP) also dropped by 18.91% year-on-year (y-o-y) to 6.87M sqm in the first 7 months of the year, compared to 8.48M sqm last year. Therefore the increase in construction loans is linked not to an improvement in the sector but rather to a shift in the sector. Back when the construction sector was booming, the market was flooded with players that are self-financed. After the market slumped, these players retreated from the sector leaving only the big players to which access to loans is easier due to their size. Prior to the market slump, the process of selling was also much easier and units were even sold when they were still under construction. It is now more difficult for developers to sell their units, whether finished or under construction.

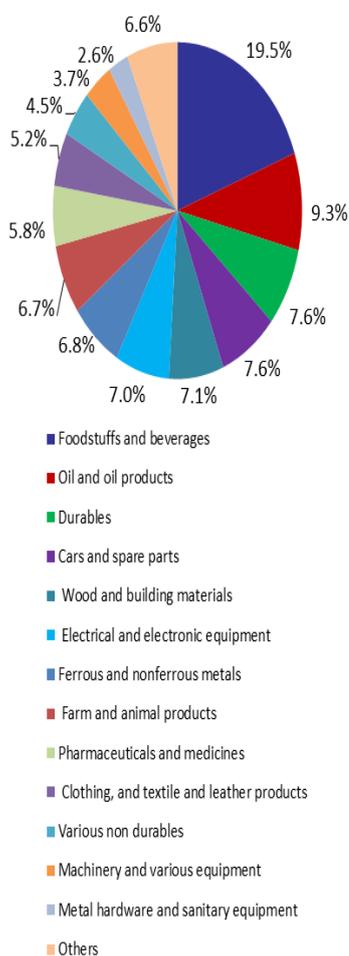
Composition of Contracting and Contracting Loans, Up to July 2015



Source: Central Bank of Lebanon

Wholesale and Retail Trade Loans: Positive Demand in the F&B Industry and Durable Goods

Composition of Wholesale Trade Loans, Up to July 2015



Composition of Retail Trade Loans, Up to July 2015



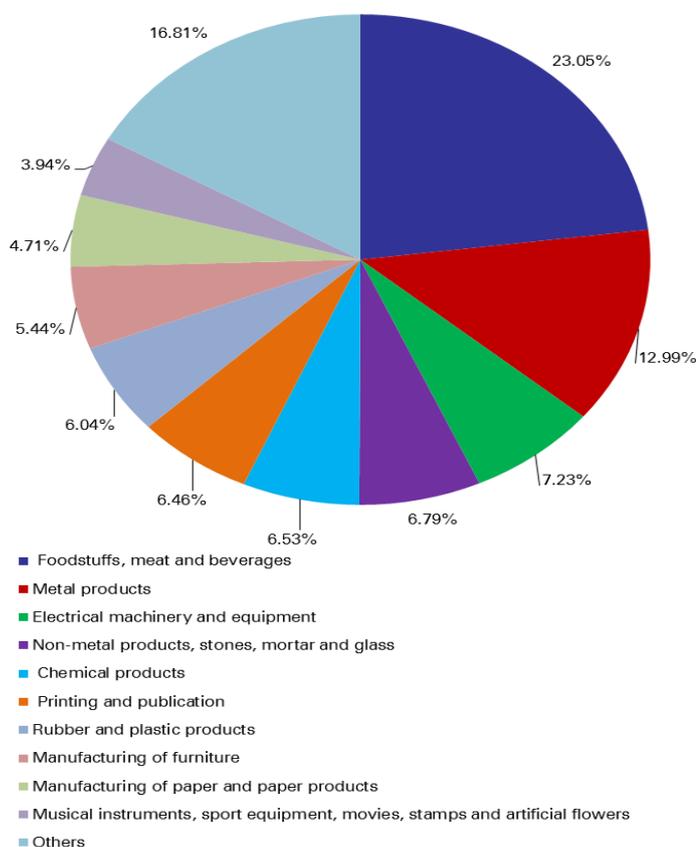
Source: Central Bank of Lebanon

In 2013, together wholesale and retail trade contributed to 13% of the total value added in the country and were valued at \$6.29B. Loans extended to the wholesale trade sector took up a share of 15.5% in total loans up to July 2015 while retail trade accounted for 5.8% .

In wholesale trade, the Food and Beverages segment is the largest loan beneficiary with a share of 19% in the total. The value of F&B loans reached \$1.68B and grew by 6.48% since year-start. Oil and oil products come next with a share of 9% and a value of \$806M, down from December 2014's \$824M. Interestingly, the loans granted for the trade of durable goods, posted a double-digit year-to-date growth to reach \$657M up to July 2015. This growth is a sign of resiliency: in spite of the morose economic environment, there is still demand for durable goods. Cars and spare parts, which are also considered durable goods, showed a 6.05% year-to-date growth of 6.05% to \$655M .

In retail trade, the value of granted loans increased by 5.01% since year start to reach \$3.25B up to July 2015. Loans for cars, small vehicles and motorcycles are the main beneficiaries of retail trade loans with a share of 16% and a value of \$535M, up by 7.70% since year-start. Loans for building material, which account for 10% of total retail loans, saw their value drop by 1.15% since year start to \$318M. However, this increase was offset by higher loan values for food stores, restaurants, coffee shops, nightclubs and pubs. Loan values for food stores rose by 3.49% since year-start to \$248M while the value of loans for restaurants, coffee shops, nightclubs and pubs surged by 17.59% y-t-d to \$213M. The increase in loans for food and drinks goes hand in hand with the fact that new concepts are proliferating on the market be it for food or drinks in Beirut or outside of Beirut .

Composition of Loans for Processing Industries, Up to July 2015



Source: Central Bank of Lebanon

Loans granted for processing industries constituted 10.2% of total loans up to July 2015. The value of processing industries loans amounted to \$5.67B, increasing marginally by 0.56% since year-start. The category of foodstuffs, meat and beverages, again took center stage by being the largest loan beneficiary amongst processing industries with a value of \$1.31B, up by 1.52% since year start. Loans for the processing of metal products come in next with a share of 13% in the total and with a value of \$737M up to July 2015. Unlike loans for foodstuffs, meat and beverages the value of loans destined for the processing of metal products declined by 1.27% since year-start.

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