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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

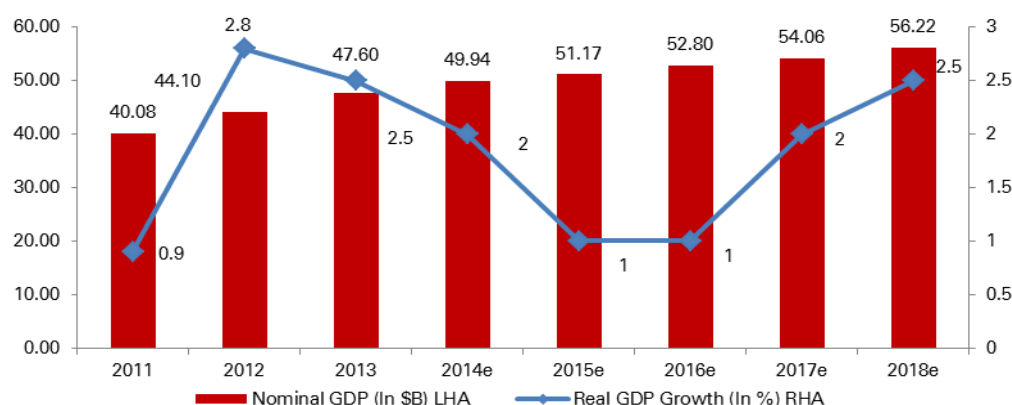
Within a Middle East mired by conflicts and amidst political deadlocks at home, the operating environment for Lebanese banks has been tough since 2011. Add to that, new anti-terrorism financing laws and stricter regulation regarding money laundering and tax evasion mean that banks have more than one delicate issue to handle. However, the conservative business approach and the ensuing buffers built-up against potential risks have allowed the banks to continue to grow and expand domestically and abroad.

With commercial banks' assets hovering around 350% of Lebanon's GDP, the banking sector is inarguably a pillar of the Lebanese economy and insight into the lending activity mirrors the inner-workings of various economic sectors.

According to the Central Bank of Lebanon, the total value of loans granted in the financial sector totaled \$57.92B, up by a yearly 7.42% from 2014's \$53.92B. With that total loans in the financial sector would represent 116% of 2015's estimated GDP.

Since the largest share of loans is poured into the sectors contributing the most to GDP, any slowdown in economic growth will also translate into a slower progress in loans. According to the International Monetary Fund's (IMF) estimates, real GDP growth in Lebanon fell from 2.8% in 2012 to 2.5% in 2013 and then to an estimated 2% and 1% in 2014 and 2015, respectively. Lending activity still holds a sizeable share in the Lebanese economy but 2015 marked the slowest growth rate in loans since 2013. The yearly growth rate in loans slowed from a double-digit 10.36% in 2013 to 7.72% in 2014 and then to 7.42% in 2015.

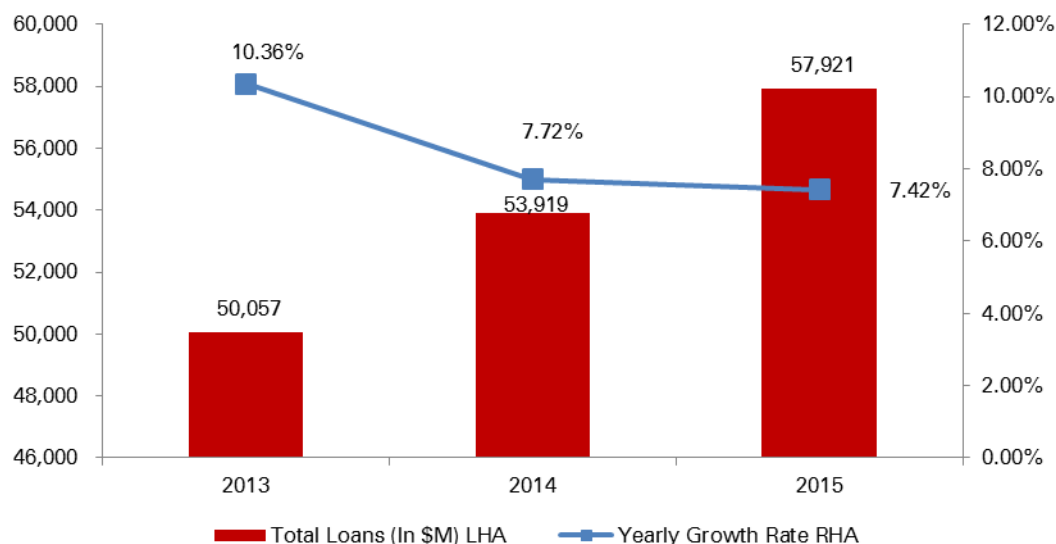
Real GDP Growth and Nominal GDP for Lebanon



Source: International Monetary Fund

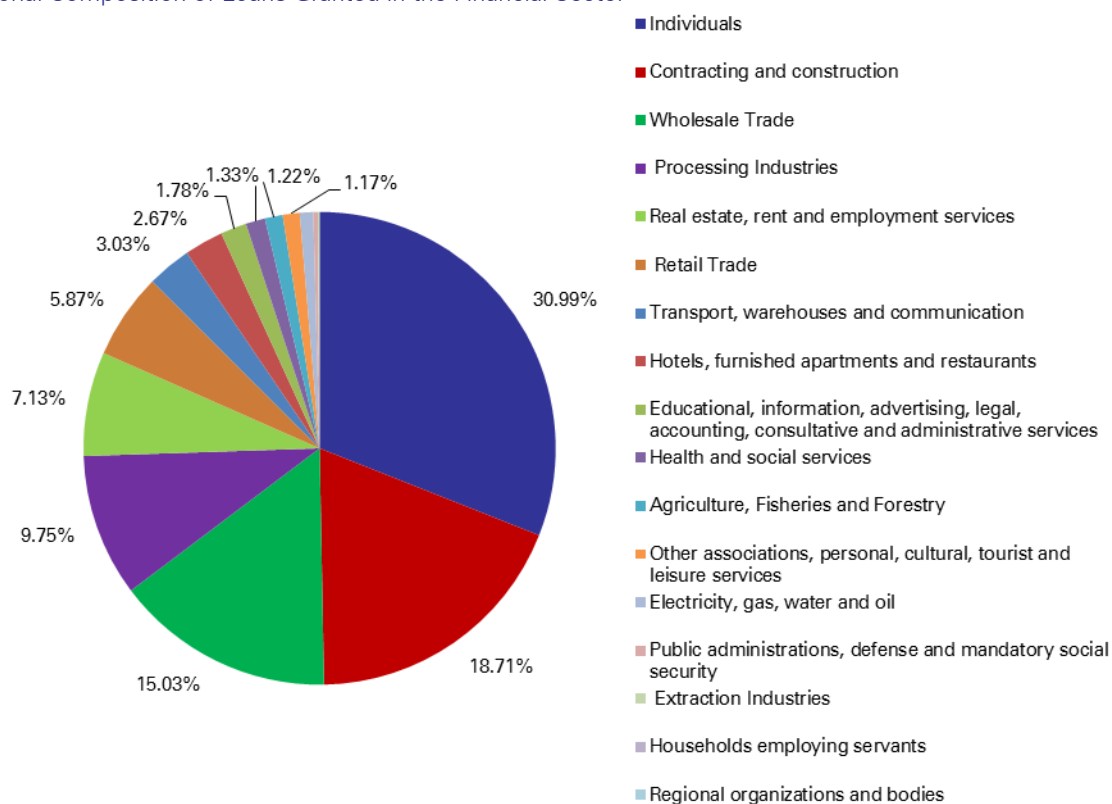
## The Details of the Lending Activity in Lebanon During 2015

Value and Yearly Growth Rate of Loans Granted in the Financial Sector



Source: Central Bank of Lebanon

Sectorial Composition of Loans Granted in the Financial Sector

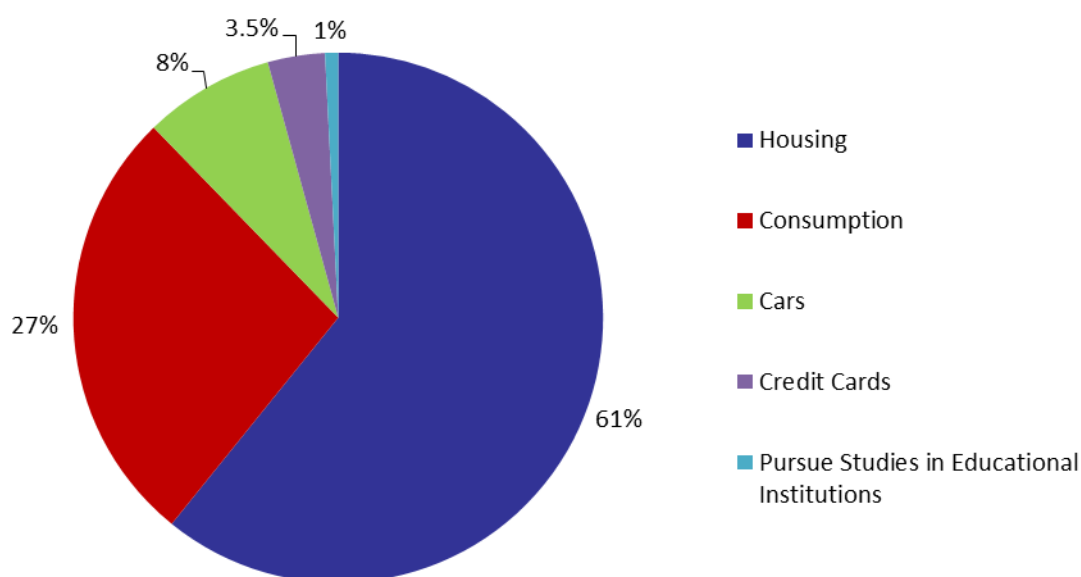


Source: Banque du Liban

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The value of individual loans is still the highest amongst loan categories, especially housing loans. Individual loans amounted to \$17.95B or 30.99% of total loans, of which housing totaled \$10.92B. Compared to 2014, housing loans saw a 10.50% yearly growth however that growth is slower than the 16% and 17% registered back in 2014 and 2013, respectively. It's the consumption loans that saw their growth rate being slashed by half from 12% in 2013 to 5.9% in 2014 and then picked up to 6.4% in 2015. Car loans barely grew by 0.07% back in 2013 but then slipped in the red by registering annual declines of 2.90% in 2014 and 9.14% in 2015 to reach \$1.35B. The car sector was already suffering from poor demand due to the overall economic slump but then came the Central Bank's restriction that car loans cannot exceed 75% of the price of the car and that limited demand for car loans even further. The growth rate of loans to pursue studies in educational institutions also grew at a slower pace from 24% in 2013 to 18% in 2014 and 13.36% in 2015 to reach \$149.69M.

### Composition of Individual Loans



Source: Central Bank of Lebanon

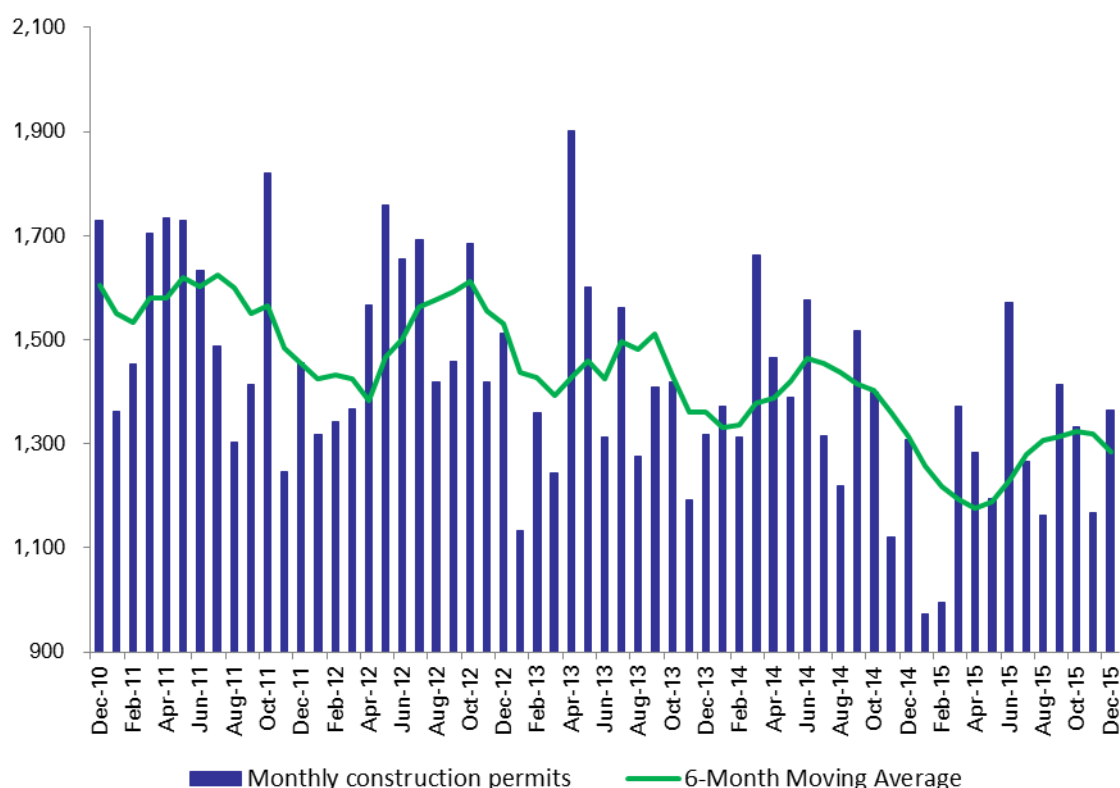
### Contracting and Construction Loans

Contracting and construction loans grew by an annual 12.88% in 2015 to reach \$10.84B. Commercial building contractors, representing 31% of total contracting and construction loans, rose by 6.35% to \$3.39B while residential building contractors, accounting for 20% of total contracting and construction loans grew by an annual 15.57% to \$2.22B.

Although the annual growth rate of contracting and construction loans grew from 5% in 2014 to 12.88% in 2015, the sector is still showing signs of weakness. Construction activity showed further contraction in 2015 as revealed by the number of permits that witnessed a 9.43% year-on-year (y-o-y) slip to 15,092. In the same context, the construction area authorized by permits (CAP) declined by a yearly 10.56%, amounting to 12.12M sqm in 2015, compared to 13.55M sqm in 2014.

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### Monthly Number of Construction Permits



Source: Orders of Engineers in Beirut and the North

### Wholesale Trade Loans

Wholesale trade loans grew by annual 3.84% to \$8.70B in 2015. Foodstuffs and beverages account for the largest share in wholesale trade loans of 20% and grew by an annual 9.33% to \$1.72B. While loans for electrical and electronic equipment grew by 4.96% to \$632.46M, loans for oil and oil products declined by an annual 2.64% to \$802.44M.

### Loans for Processing Industries

The loans granted to processing industries barely grew in 2015. The loans amounted to \$5.65B, rising only by 0.19% when compared to 2014. The biggest chunk went to foodstuffs, meat and beverages which rose by an annual 4.79% to \$1.35B. Loans destined for metal products however fell by 8.26% to \$684.38M.

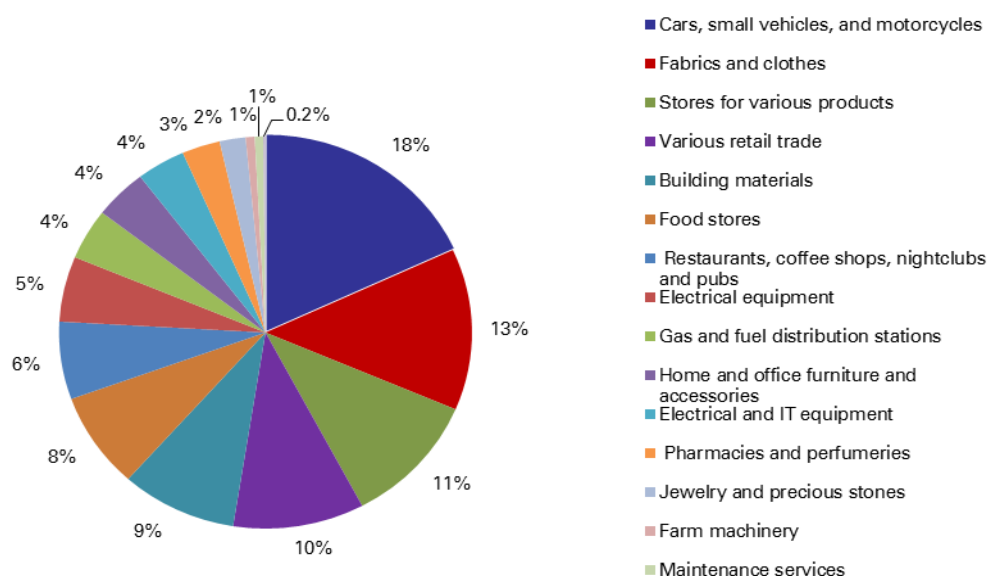
### Real estate, rent and Employment Services

After two consecutive years of growth at rates of 8% in 2013 and 9% in 2014, loans for real estate, rent and employment services, dropped by 1.56% in 2015 to reach \$4.13B. In fact, real estate services, which represent 76% of this category's total, fell by an annual 0.81% to \$3.15B.

The real estate sector, a core sector of the Lebanese economy, saw a setback in 2015. The number of real estate transactions stood at 82,790 by the end of 2015 as opposed to 87,503 in 2014. Those transactions were worth \$8.41B in 2015, down by a yearly 13.41% from the previous year.

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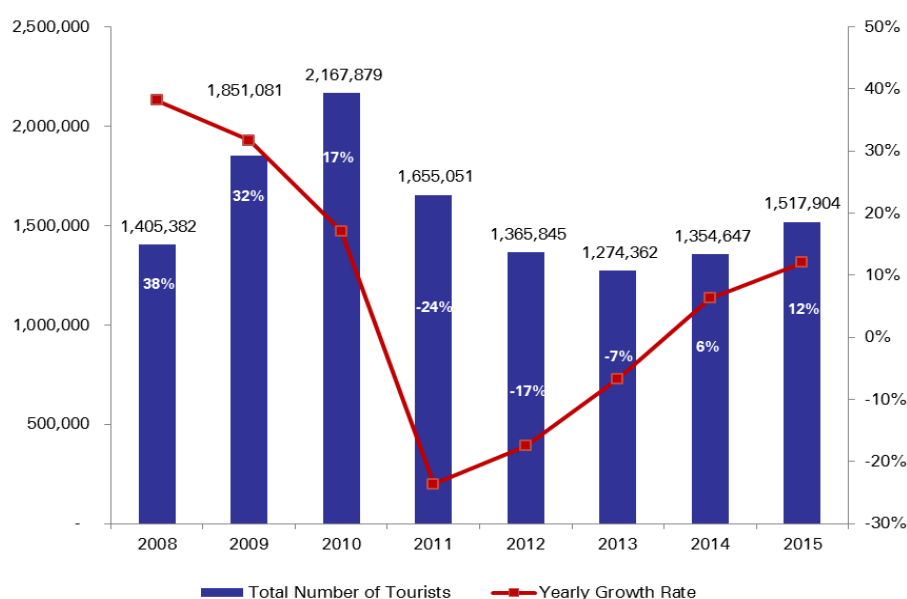
### Retail Trade



Source: Central Bank of Lebanon

Retail trade loans saw their growth rate double from 5% in 2014 to 10% in 2015 to reach \$3.40B. The biggest share of 18% went to loans for the retail trade of cars, small vehicles and motorcycles. The latter category saw its growth rate surge from 9% in 2014 to 24% in 2015 to reach \$614.57M. However loans for building materials downturned since 2013 with their growth slowing from 12% in 2013 to 10% in 2014; the value of these loans then dropped by 4% in 2015 to amount to \$307.89M. This decline substantiates the claim that the real estate sector and all related sub-sectors have been suffering from setbacks in the past few years.

### Number of Tourist Arrivals



Source: Ministry of Tourism

The tourism sector, on the other hand, witnessed a recovery in 2015 and that was also reflected in the loans granted to tourism-related entities. Figures show that retail trade loans granted for restaurants, coffee-shops, nightclubs and pubs grew by 20% in 2014 to \$217.06M. However, same as the tourist sector, these loans are recovering from a low base. In fact, in 2013, loans to this category fell by an annual 14% in 2014 and totaled \$180.88M back then.

Demand for loans in the category of restaurants, coffee-shops, nightclubs, pubs is not only destined for tourists but also for the Lebanese. According to Hodema statistics, despite the general economic slowdown, the number of restaurants in the Beirut area still increased by a yearly 3.47% from 836 in 2014 to 865 in 2015.

The value of loans destined for hotels bears a more direct link to the state of tourism sector. Central Bank figures show that loans for hotels recorded a double-digit annual fall of 16.15% to reach \$875.71M in 2015. According to Ernst and Young's Middle East Hotel Benchmark Survey, the occupancy rate of Beirut Hotels surpassed the 52% mark it had stabilized on since 2012 but has yet to regain the 64% rate recorded back in 2011.

In conclusion, the link between lending and GDP in the Lebanese economy is undeniable. GDP growth is expected to have fallen to a three year low in 2015 and lending followed the exact same downward path. The decline in GDP was brought about by poor performances in the sectors of real estate and tourism, all of which have seen declines in loan values. In these tough times, the Central Bank of Lebanon is assisting the economy with new stimulus packages each year since 2013 with an average value of \$1B/year.

When tourism and real estate are struggling sectors, the knowledge economy is a budding opportunity for Lebanon's economy. Lebanon's economic potential is being unlocked by allowing banks to tap into the knowledge economy, therefore giving startups and entrepreneurs access to finance and the chance to innovate and create jobs at home.

## The Details of the Lending Activity in Lebanon During 2015



For your Queries:

**BLOMINVEST BANK** s.a.l.

Research Department  
Bab Idriss, Downtown Beirut

Riwa Daou, Research Assistant  
[Riwa.daou@blominvestbank.com](mailto:Riwa.daou@blominvestbank.com)  
+961 1 991 784

Marwan Mikhael, Head of Research  
[marwan.mikhael@blominvestbank.com](mailto:marwan.mikhael@blominvestbank.com)  
+961 1 991 782

[research@blominvestbank.com](mailto:research@blominvestbank.com)

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