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Contact Information

Stephanie Aoun

Stephanie.aoun@blominvestbank.com

It has been nearly three years of political, economic and social conflagrations in Lebanon; in fact, in the absence of any competent leadership, Lebanon's economy is teetering on the verge of total collapse as various sectors continue to experience deeper and more serious deficits, exacerbated by a currency in free fall, flawed policies, inflation and a misguided ruling elite. As a matter of fact, the banking sector is currently crippled and is exploring ways to cut costs, by merging branches, firing employees, etc. However, we can't help but reminisce on the glory days of the Lebanese banking sector before the crisis. In reality, since the early 1990s, the banking sector was the most prominent sector in Lebanon; fresh graduate students were seeking to find a job in this sector as it was booming and thriving.

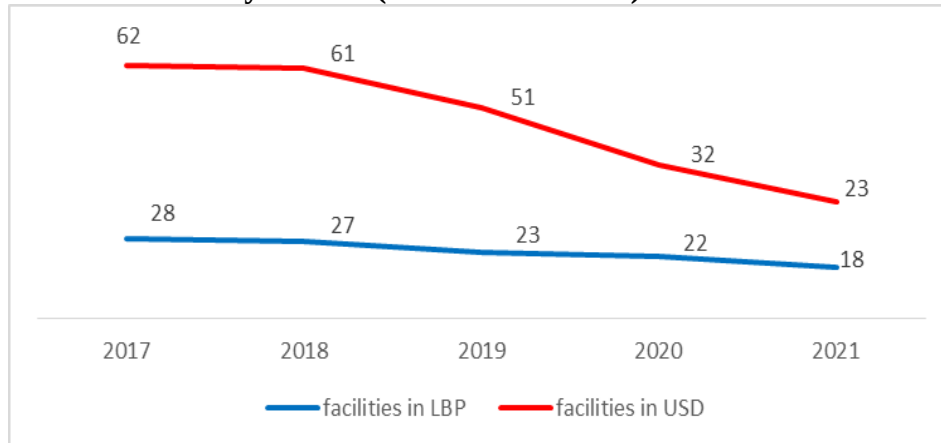
In our report, we will look at one crucial role of this banking sector: credit facilities. In this respect, we will analyse the distribution of utilized credit facilities, by volume, sector, region, as well as evaluate the type of facilities and guarantees, before and after the financial crisis in Lebanon and then conclude.

1- Credit facilities by volume

Looking at Lebanon's consolidated commercial banks' balance sheet, we will analyse the financial data on claims on resident and non-resident customers. As shown in the graph below, volume of facilities in foreign currency is much higher than in LBP. In fact, total volume of facilities granted in foreign currency was estimated at LBP 62T in December 2017, whereas it was estimated at LBP 28T in local currency for the same period. Arguably, banks were lending facilities in USD at more attractive rates than in LBP, as the Beirut Reference rate (BRR) in USD has always been approximately 3.5 points lower than the BRR in LBP.

On another note, on October 17, 2019, the Lebanese revolution exploded, which was a turning point to the economic and political situation. In fact, banks closed for a period of two weeks due to on-going protests, and after their re-opening, not only did they install limits on cash withdrawals in foreign currency, but they also lowered all facilities limits to match the utilization. Therefore, by the end of year 2019, commercial facilities in LBP and foreign currencies were significantly dropped. In addition, in 2020 and 2021, banks were attempting to cancel clients' facilities by suggesting discount rates up to 12% in case of full closure. Therefore, by the end of the year 2021, the volume of facilities in foreign and local currency had respectively reached LBP 23T and LBP 18T.

Credit facilities by volume (in Trillion of LBP)

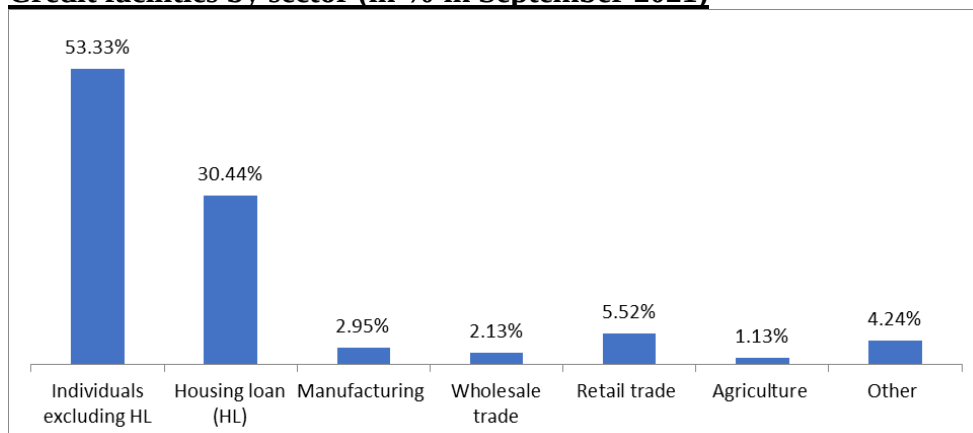


Source: BDL, BLOMINVEST

2- Credit facilities by sector

According to the quarterly bulletin of BDL, retail facilities represented the main bulk of total facilities in the third quarter of year 2021. In fact, 83.77% consisted of loans granted to individuals out of which 30.44% constituted of housing loans. As for the commercial facilities, retail trading companies were most granted facilities at 5.52%, whereas agriculture companies represented the smallest portion to benefit from loans at 1.13% in September 2021. We should note that banks stopped granting facilities to real estate and contracting companies in 2018, for numerous reasons; first, by that time, the quota for subsidized housing loans was over for an undefined period of time, thus reducing sharply the demand for real estate. Second, in September 2018, BDL issued a new circular pressing that banks lend facilities in LBP up to only 25% of total deposits, which forced banks to limit the housing loan quota as it was, in majority, granted in LBP. Finally, during the same period of time, interest rates on loans started to increase remarkably, adding to the suffering of the real estate sector. As a result, by the middle of the year 2019, 90% of real estate companies had unfortunately defaulted.

Credit facilities by sector (in % in September 2021)

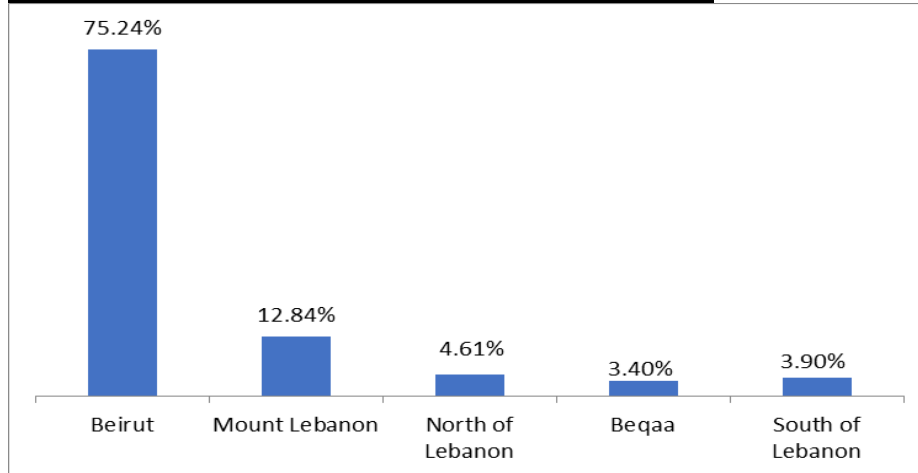


Source: BDL, BLOMINVEST

3- Credit facilities by region

According to the quarterly bulletin of BDL, in the third quarter of year 2021, the capital of Lebanon, Beirut, has the highest shares of utilized credit facilities at 75.24%, followed by Mount Lebanon and the North of Lebanon with respective shares of 12.84% and 4.61%.

Credit facilities by region (in % in September 2021)

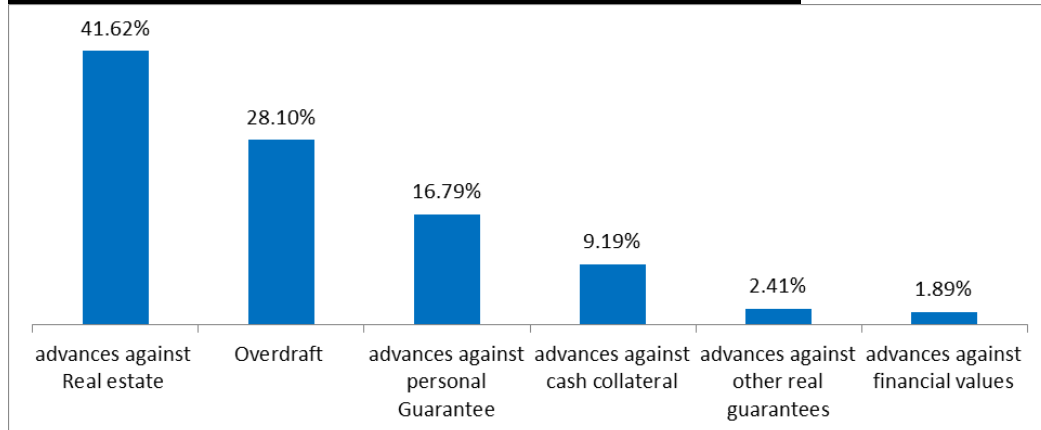


Source: BDL, BLOMINVEST

4- Type of facilities and guarantees (Commercial facilities)

The credit department at a bank must evaluate the financial condition of businesses, and in case they deem the credit applicant worthy, they recommend the loan amount, the type of facility, guarantee, interest conditions and terms. However, the credit applications did not always respect the credit standards; the department would sometimes overlook the fact that a business has a negative net operating cash flow (NOCF) and would still loan him/her a credit line. As a matter of fact, in the previous two years, BDL had implemented a new circular, which forces companies to submit audited financial statements compliant with company prepared financials presented to the Ministry of Finance. As a result, the provided financials showed a sudden drop in turnover and profitability as well as unfavourable financial indicators. Therefore, the credit department had to look past the financial analysis and make recommendations based on the proposed security, account movement, reputation among customers and suppliers, real estate net worth, etc.

As shown in the table below, in December 2019, advances against real estate represented the highest share of total facilities, standing at 41.62%; which is plausible, considering the fact that banks would insist on having a real estate guarantee as a security. In fact, bank would favour to hold real estate securities covering at least two times the proposed facility limit. Overdraft facilities constituted the second highest share of total facilities, standing at 28.1%, as clients would often times request overdraft in their loan application since it consisted of an open line of credit that can be renewed every year. Little do they know, they were paying relatively higher interest and commission rates for these types of facilities.

Type of facilities and guarantees (in % in December 2019)


Source: BDL, BLOMINVEST

In conclusion, the banking sector has fallen in the past three years, directly affecting the credit departments. In fact, since the Lebanese Revolution of October 2019, these departments had stopped lending facilities to companies, while desperately attempting to cancel high risk files. Nevertheless, by the end of year 2021, banks resumed granting facilities to companies in LBP, to be exclusively used in checks. In order to go beyond the crisis, we suggest a series of reforms as follows:

- Following the economic crisis, banks should inevitably limit their engagements with the government and BDL, as such; they will possess more liquidity, which will enable them to invest more in productive economic sectors.
- Going forward, we suggest focusing more on commercial facilities, as in the past retail loans constituted the majority of total facilities (over 80%). Also, they must expand their exposure outside of Beirut area while minimizing their exposure to the real estate sector, hence creating new lines of credit products for well-established businesses all over the Lebanese territory.
- Identify key sectors and put in place a more rigorous evaluation process to make sure to invest in the productive and high potential growth sectors.
- Work collaboratively with other banks to put in place these rigorous structures and make sure the banking sector doesn't collapse.

Consequently, the above reforms will help boost the economy while increasing investments and gaining back the trust of the people.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department

Bab Idriss, Weygand Str.

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Stephanie Aoun

stephanie.aoun@blominvestbank.com

Tel" +961 3 891100

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

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