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Cash-strapped industry and trade

Sector sees bankruptcies and hard times

Debt rescheduling and requests for decreased interest rates have become common practice between traders, industrialists and banks in Lebanon, owing to the ongoing recession in the country. The causes, size and distribution of debt by sector are explored below.

Bank loans

At the end of 2002, bank loans to the private sector reached LL 24,752 billion ($16.4 billion), out of which LL 20,341 billion ($13.5 billion) were loans in foreign currencies, or 82.18% of the total. This high dollarization trend, owing to lower interest on loans in foreign currency, is also evident in deposits, with dollarization of bank deposits reaching 65.6% of total deposits by end 2002.

The loans make up 38.5% of deposits, which reached LL 64,274 billion ($42.6 billion) at the end of 2002. Compared to the previous year, loans increased by 1.3%, or LL 332 billion ($220 million), a small percentage that indicates lack of demand on borrowing.

Distribution by sector

The highest percentage of bank loans (45.11%) went to the trade and services sectors, distributed as shown in Table 1 on the following page.

Geographic distribution of loans

The highest percentage of loans was in the Greater Beirut area (81.75%), followed by the mohafazat of Mount Lebanon (8.52%), North Lebanon (3.71%), South Lebanon, Nabatieh (3.09%) and the Bekaa (2.93%).

Loan distribution by beneficiary

At the end of 2002, total loans in the amount of LL 24,752.4 billion ($16.4 billion) were distributed among 83,423 beneficiaries, as shown by the breakdown in Table 2 on the following page. The table illustrates that 1% of the beneficiaries received 52% of loans while another 6% received 30% of loans, indicating that only 7% of beneficiaries received 82% of all loans. This points to the lack of diversity in the loan process, in which there is a propensity to benefit mostly large companies or certain individuals.

Debt rescheduling

Public debt

Total interest paid on the public debt from 1993 up until the end of April 2003 reached LL 33,752 billion ($22.4 billion) or 75% of the total debt. After the Paris II international donor conference held in November 2002, there was a decrease in rates on 15-year T-bills to 5% (with subscriptions to government bonds by donors reaching $2.4 billion by the end of June, out of the total $3.1 billion committed).

This was followed by an agreement between the Central Bank and the Association of Banks in Lebanon to reduce interest on 2-year T-bills (and other categories) from 16% to 9%. In addition, the banks placed 10% of their deposits in 2-year T-bills at 0% interest, aiding the government's efforts to restructure the debt and limit its growth.

Traders and industrialists' debt

Large traders and industrialists have been drawing comparisons between their situation and that of the government. Pointing to the burden of a stagnated economy that threatens them with bankruptcy, they are arguing for a rescheduling of their debt.

Continued on page 2

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The high interest being charged on their bank loans, even with the offer of substantial guarantees, has been one of the