



A REPORT ON
SMEs' LENDING STATUS IN QATAR
2019

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Table of Contents

Introduction	04
SMEs' Lending Status in Qatar 2019	06
Credit Applications in 2019.....	07
Credit Application Approval/ Rejection Rates.....	09
SMEs' Share in the Credit Market	10
Distribution of SMEs' Accepted Credit Applications by Sector.....	11
Purpose of Credit Applications	12
Credit Products	13
Non-Performing Loan (NPL) Ratio.....	15
Highlights	16

Introduction

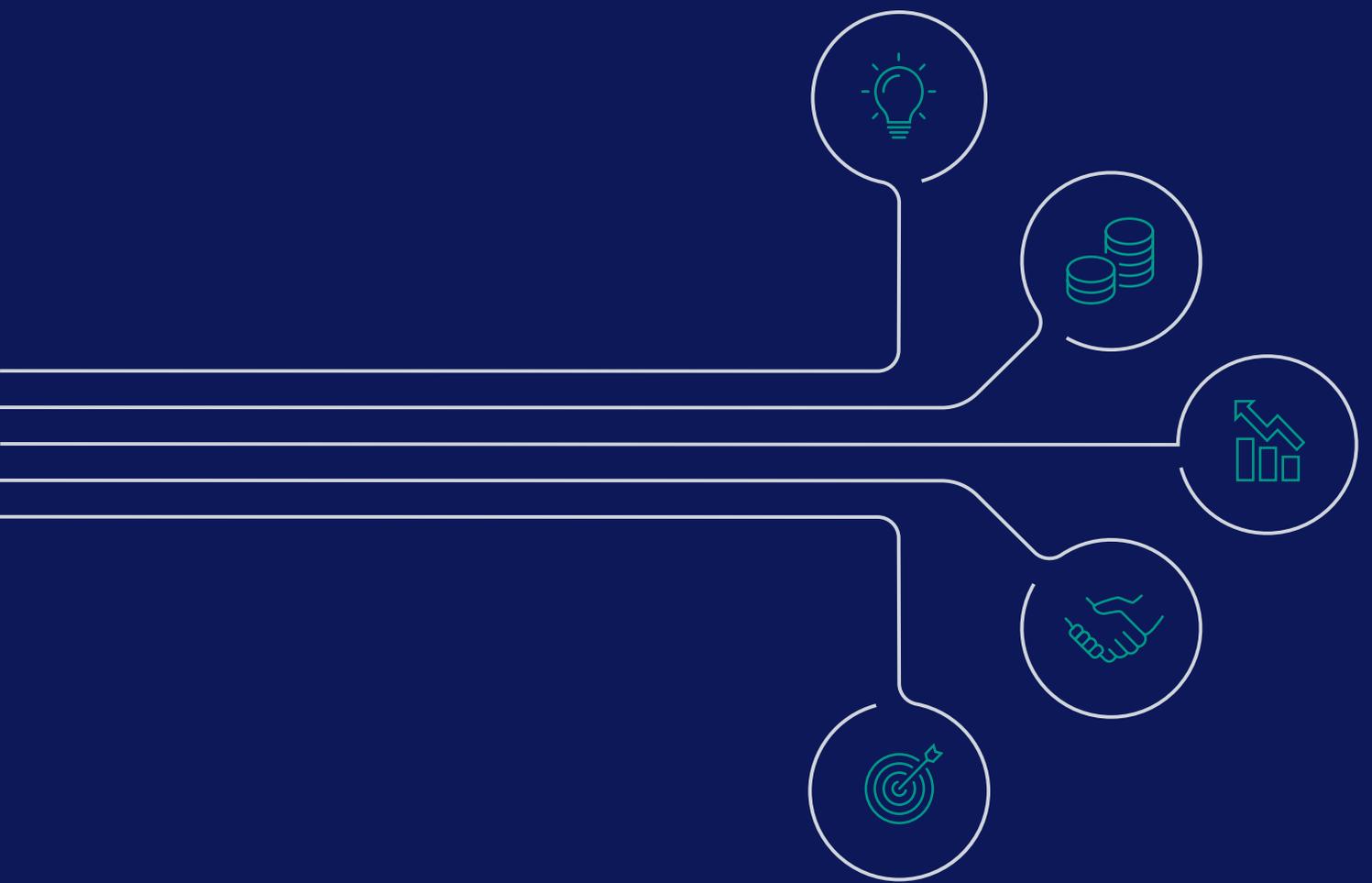
In December 2015, Qatar Central Bank (QCB) issued a circular (no. 107/2015) on adopting a standardized definition for small and medium enterprises (SMEs) within the nation's banking sector. As a result, all banking information and statistics related to financial services and products issued by banks conformed with this definition. Subsequently, in August 2016, QCB issued a circular (No. 46/2016) to banks requesting financial statistics relating to their transactions with SMEs to be included in semi-annual reports to Qatar Development Bank (QDB).

The figures contained within these reports have been collated here, to provide a summary of the most important information related to the banking sector's financing of SMEs for the year 2019. This document aims to examine the bank financing situation for SMEs in Qatar in terms of their share in the financing, acceptance ratios for credit applications, the purpose of credit applications, and non-performing debt rates.

This report is based on data gathered from banks operating in Qatar that provide credit services to SMEs, collected through a standard form sent to all relevant banks by QCB.

Disclaimer

This report is based on data received from various banks in Qatar. Based on the ownership of input, data remains with the providing bank, and hence the accuracy of data remains the sole responsibility of the respective bank. Qatar Development Bank has collected and analyzed that data according to its availability, taking into consideration the potential defects of certain data or the failure of one or more banks to submit a completed data collection form.





SME's Lending Status in Qatar 2019

This summary highlights the key findings that can be extracted from bank data on SME financing. The results provide valuable information on the status of SMEs in Qatar's bank-lending sector.

Before delving into key findings of this report, as way of background, it is important to highlight information about the SME's, as clients of the banking sector from 2019.

During 2019, nearly 3,800 SMEs (Figure 1) had existing credit facilities with banks in Qatar, a slightly lower total than the previous year.

In assessing the distribution of these enterprises in terms of size, Figure No. 2 shows that 32% were medium enterprises, while small enterprises represented the largest group, with a share of 42% of the total number of companies. Meanwhile, the percentage of micro-enterprises was about 26%.

Additionally, the share of medium enterprises continued to grow at the expense of the other two categories, increasing from 19% in 2016 to 32% in 2019.

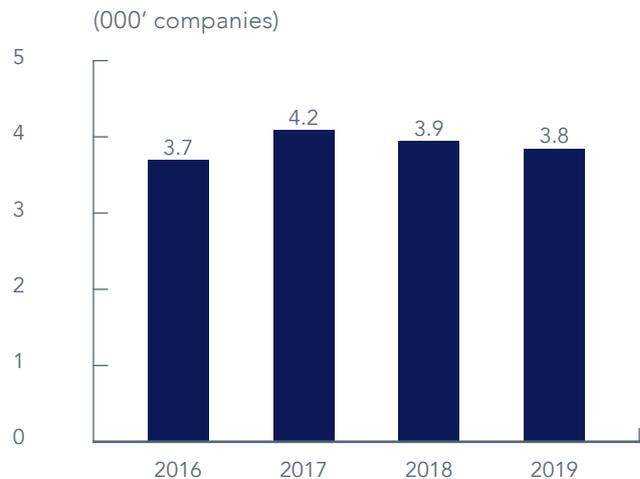


Figure 1 Banks' portfolio of SME clients who have existing credit facilities at the end of 2019

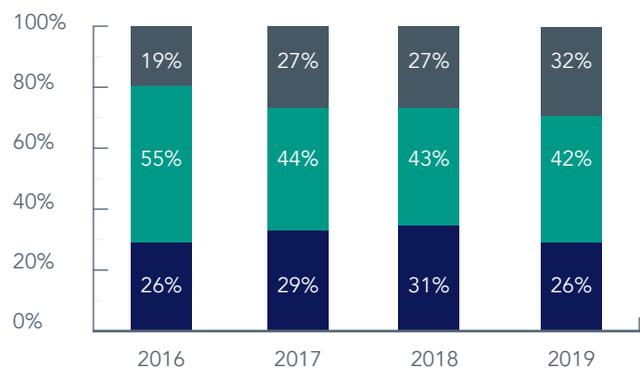


Figure 2 Relative distribution of the number of SMEs in terms of size (2016-2019)



Credit Applications in 2019

The year 2019 witnessed a noticeable decrease in total credit applications compared to the previous year. The value of accepted credit applications in 2019 amounted to approximately 17.2 billion Riyals, compared to around 24.5 billion Riyals in 2018, a decrease of about 30% (Figure 3).

This decline occurred despite the growth of private sector credit by approximately 29% between 2018 and 2019. However, it should be noted that the private sector also includes large companies, and by reviewing this variable at the level of sub-economic activities, it was found that the credit growth of a number of subsectors - for example, the industrial sector – has grown by 5.1%. Importantly, this growth pattern came from specific subsectors: oil, natural gas, and heavy industries. In contrast, other industries contracted by 33% between 2018 and 2019. Likewise, although private sector credit in the trade sector grew by 57%, some of its subsidiary activities declined, such as trade in health, agricultural, and electronic products, with SMEs most likely to operate within many of those subsidiary activities that have experienced a decline in bank credit¹.



Figure 3

Evolution of the value of accepted credit applications for SMEs (2016-2019)

***Note:** Credit applications comprise various types, including new loan applications, loan restructuring, overdrafts, and others.



Figure 4

Relative distribution of SME share of the value of accepted credit applications according to the size of the company

¹ The authors calculated the growth of private sector corporate credit between 2018 and 2019 using QCB data, which included the « Banks Monthly Statement»

In terms of the distribution of accepted credit applications, medium enterprises maintained a large share of 73% in 2019. Small enterprises came second with a share of 22% (Figure 4).

In terms of different corporate sizes, small businesses recorded the highest decline in

the value of their credit applications between 2018 and 2019 (42%), followed by medium-sized companies (29%). In contrast, accepted credit applications by micro-companies increased by 63% compared to the previous year (Figure 5).

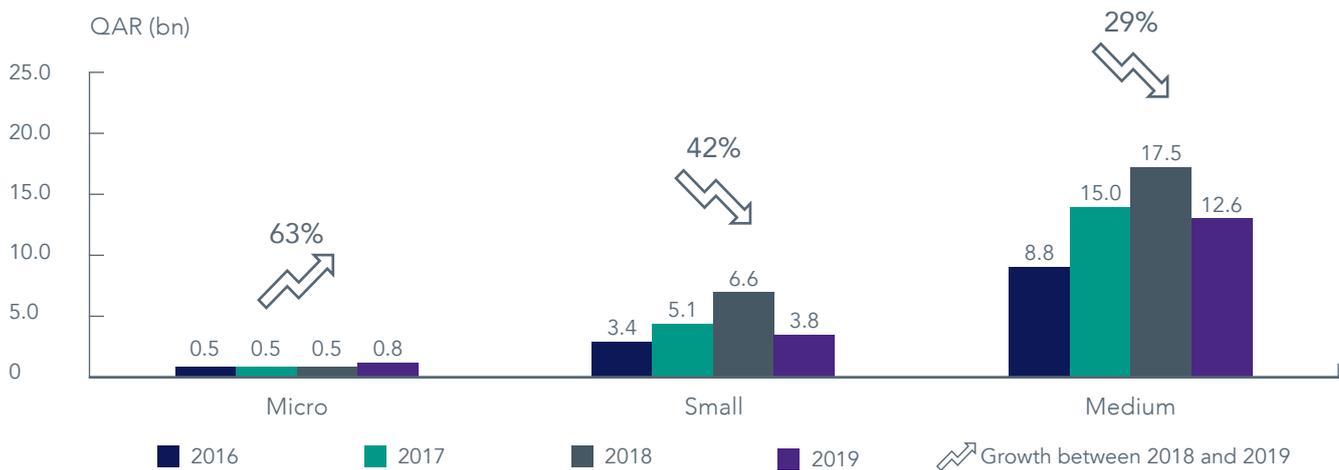


Figure 5

Evolution of the value of accepted credit applications by company size and its growth rate between 2018 and 2019



Credit Application Approval / Rejection Rates

In 2019, credit applications acceptance rates increased slightly compared to 2018, with 92.4% of credit applications accepted (Figure 6).

Given the acceptance rates of companies in terms of size (Figure 7), the data shows that small and medium enterprises have the highest acceptance rates for their credit applications, with banks accepting their credit applications at 93.7% and 93.3%, respectively. Micro-companies significantly improved the rate of acceptance of their credit applications to about 88% in 2019, rising from 71.7% in 2018.

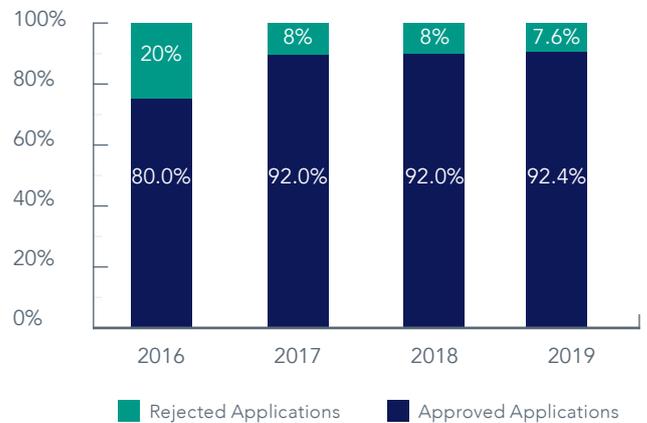


Figure 6

Credit application status for SMEs (2016-2019)

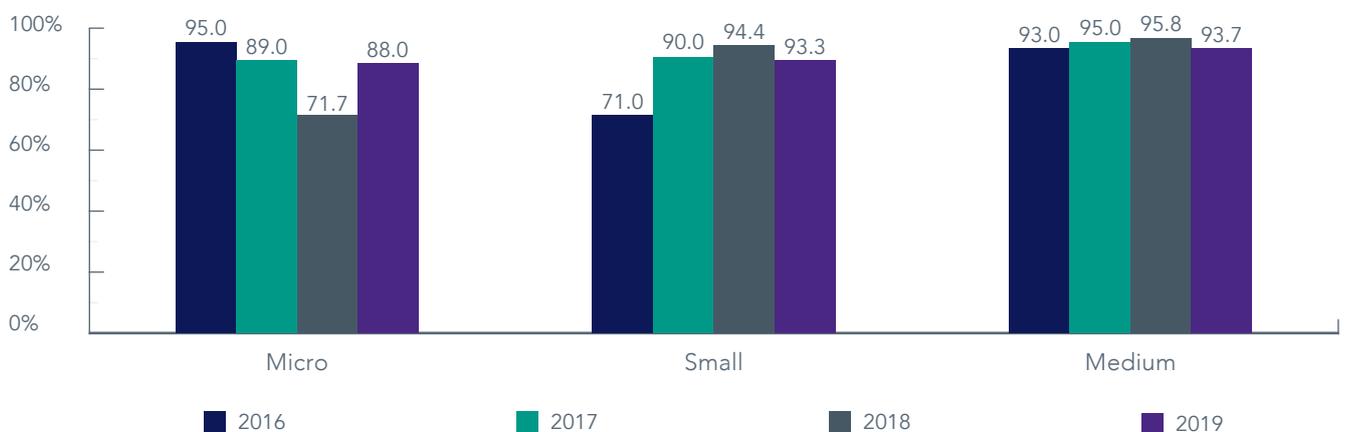


Figure 7

Evolution of credit acceptance ratios according to company size 2016-2019



SMEs' Share in the Credit Market

As stated earlier, the credit balance of private sector companies as a whole has increased between 2018 and 2019 by approximately 29%. Companies operating in the two main sectors of trade and services contributed to this growth by circa 50% and 47%, respectively. While credit growth has decreased in the contractors' sector by 5% and industry sector where the credit amount for certain sub-activities (except oil, gas industries, and heavy industries) decreased by 33% ¹.

On the other hand, the SMEs' outstanding credit continued to increase year-on-year to reach approximately 19.6 billion riyals in 2019 (Figure No. 8).

It is noteworthy that this value represented circa 4.6% of the total value of credit for the private sector (companies), which amounted to approximately 425.4 billion riyals, higher than the previous year's recorded figure of 3.8% (Figure No. 9).

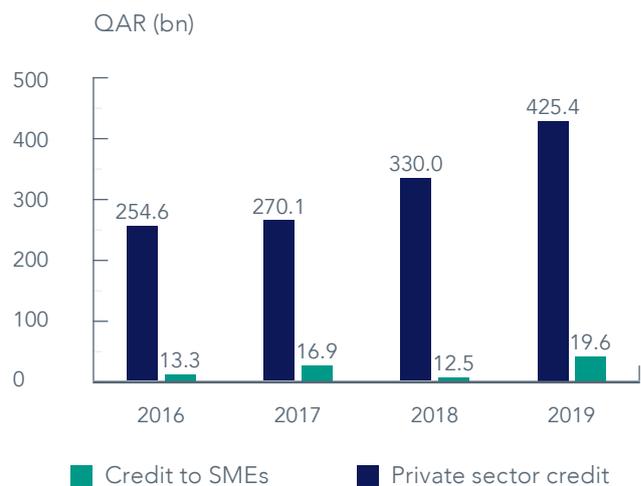


Figure 8

The growth of credit balances for both "private sector companies" and "SMEs" (2016-2019)

Note: QDB has compiled and analyzed the outstanding credit data according to the availability of data collection forms, taking into account potential data shortcomings or the absence of one or more banks' participation in the completion of this variable

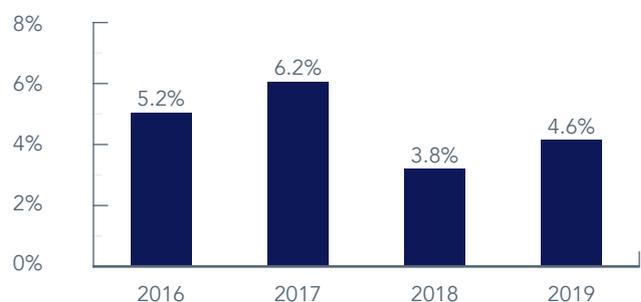
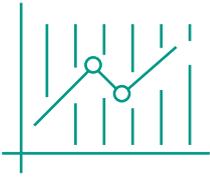


Figure 9

Share of SME credit to private sector (corporate) credit

¹ The team calculated the growth of private sector corporate credit between 2018 and 2019 using QCB data on the "Banks Monthly Statement" in various issues.



Distribution of SMEs' Accepted Credit Applications by Sector

The sectorial analysis of SMEs' share of accepted credit applications for the period from 2016 to 2019 shows that enterprises in the trade and services sectors dominated the value of accepted credit applications, representing 66% of the total value in 2019 (Figure 10).

The manufacturing sector share increased to 17% of total accepted credit applications, in comparison to 15% in 2018. Meanwhile, the share of the agricultural sector decreased from 2.9% in 2018 to 2% in 2019.

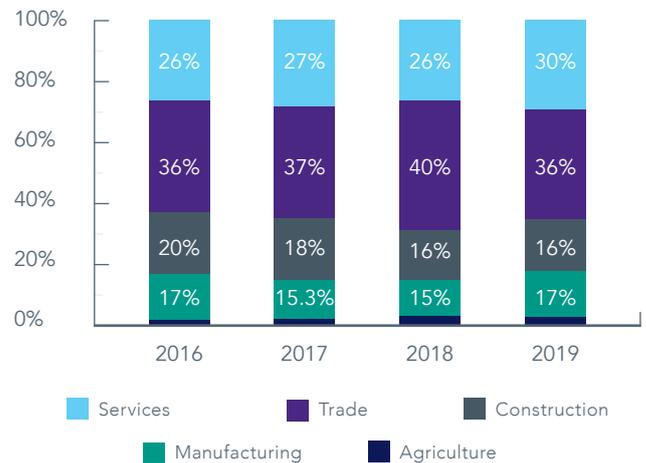


Figure 10

Distribution of SMEs' accepted credit applications by sector (2016-2019)



Purpose of Credit Applications

There are different reasons for which SMEs apply for credit. Analysis of the period from 2016 to 2019 shows that credit applications for growth and expansion purposes account for around 35.6% of total applications in 2019. This was followed by applications for Working Capital requirements at 27% (Figure 11).

Data analysis revealed a convergence between companies of different sizes in terms of credit purposes, with Growth and Expansion ranking

first for micro and small enterprises, and Working Capital ranking first for medium enterprises, followed by Growth and Expansion.

Applications for Working Capital were second for both micro and small enterprises. Applications for Starting a New business ranked third for medium enterprises at 16%, compared to 9% and 7% for micro and small enterprises, respectively.

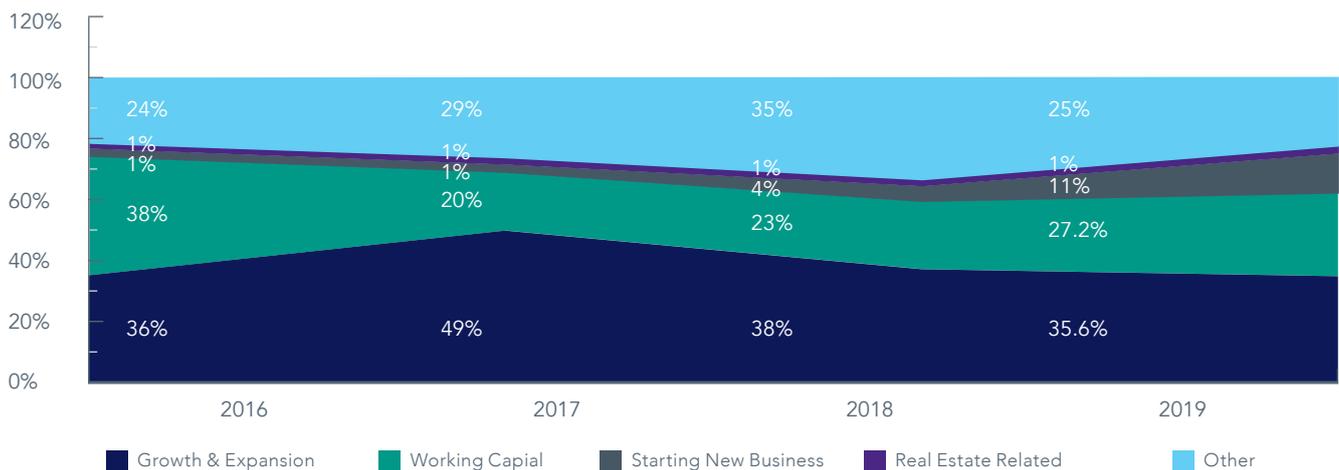


Figure 11

Distribution of SMEs' credit applications by purpose (2016-2019)



Credit Products:

For credit products, Renewal/Restructuring of Existing Loans witnessed the highest demand in 2019, securing a share of 26.6% of total credit products (Figure 12). This may indicate that a significant number of enterprises are facing obstacles due to company or market conditions, and have sought to renegotiate their loan repayment terms.

At 20%, New Loan was the second most-requested product, while Invoice Discounting regressed to rank third at 11.5% in 2019, compared to 26% in 2018.

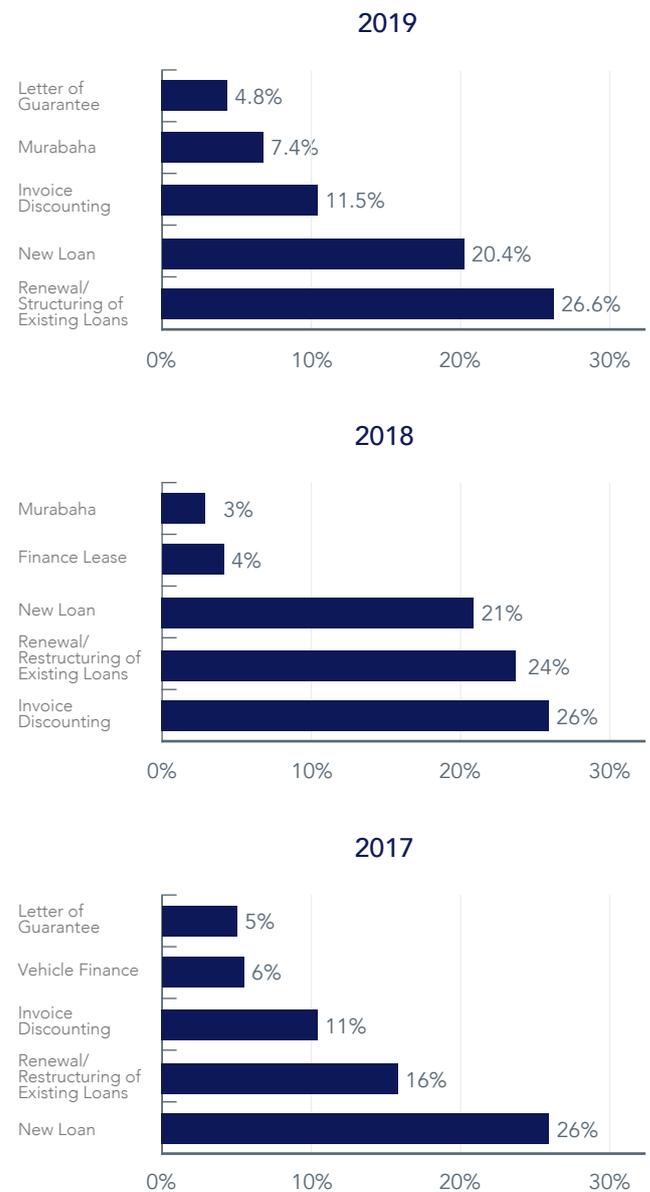


Figure 12 Relative shares of SMEs' most demanded credit products (2017 - 2019)

In terms of bank categories, Renewal/ Restructuring of Existing Loans also ranked first for both conventional and Islamic banks, at 31% and 26%, respectively. Furthermore, New Loan and Invoice Discounting ranked second and third respectively for Islamic banks, with those positions reversed in the conventional banks category (Figure 13).

While conventional banks maintained the highest share of accepted credit applications value – representing 61% against 39% for Islamic banks in 2019 – the share of Islamic banks increased in comparison to 2018, when it represented 31% (Figure 14).

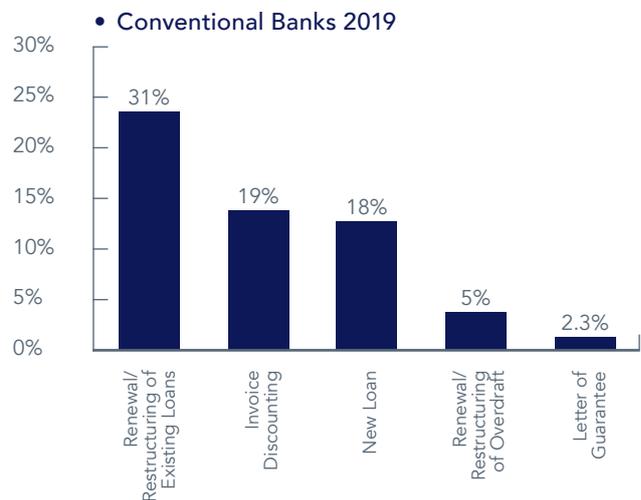
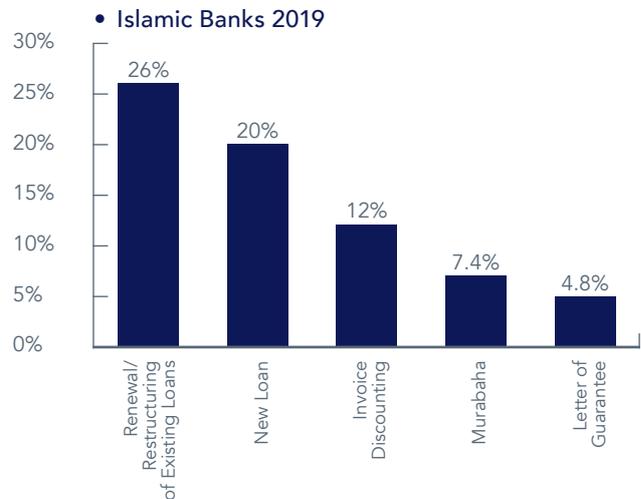


Figure 13

Relative shares of SMEs' most-demanded credit products in conventional and Islamic banks (2019)

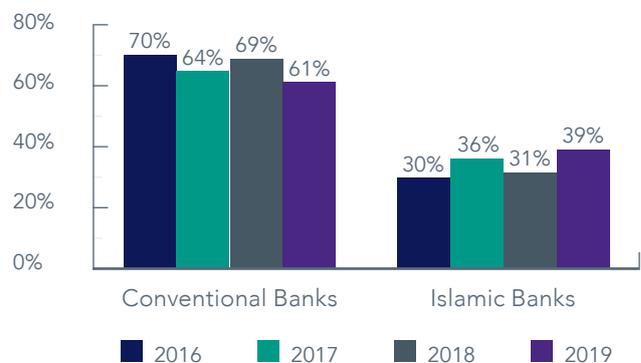


Figure 14

Relative shares of conventional and Islamic banks in terms of accepted credit applications value (2016-2019)



Non-Performing Loan (NPL) Ratio

SMEs in Qatar registered an NPL ratio of 5.1% of the credit portfolio in 2019, compared to 5.9% in 2018 (Figure 15).

The figure also shows that medium enterprises registered the lowest NPL ratio at 3.9%, compared to 6.9% for small enterprises and 8.3% for micro enterprises.

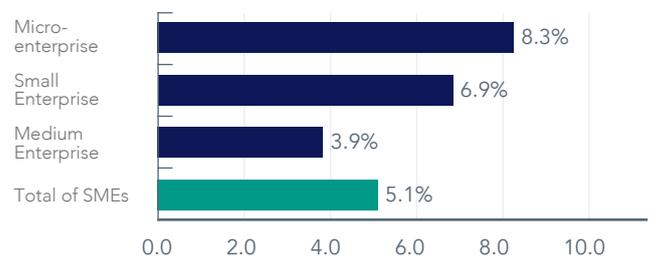


Figure 15

NPL ratios by company size (2019)



Highlights:

Based on the information contained in this report, key results can be summarized as follows:

- Small enterprises constituted around 42% of banks' total balance from SME clients with existing credit facilities in 2019, followed by medium enterprises at 32%, and micro-enterprises at 26%.
- In terms of credit applications value, medium enterprises recorded a share of 73% of the total value of applications submitted by SMEs in 2019, followed by small enterprises with a share of 22%.
- The value of accepted credit applications in 2019 decreased by 29% for medium enterprises, and 42% for small enterprises, comparing to 2018, whereas the value of micro-enterprises increased by 63% during the same period.
- Credit applications acceptance rates registered a slight change in 2019 in comparison to 2018, amounting to almost 92% in both years.
- The value of outstanding credit of SMEs in 2019 amounted to QAR 19.6bn, representing 4.6% of the credit to private sector (corporate), compared to 3.8% in 2018 and 6.2% in 2017.
- On a sectorial level, no significant changes were witnessed in terms of economic sector shares, as the trade and services sectors remained dominant, recording 66% of SMEs' total credit. However, the credit share of the manufacturing sector increased to 17% in 2019, compared to 15% in 2018.
- The main purpose of SMEs' credit applications in 2019 was Growth and Expansion, as indicated by a share of 35.6%, despite decreasing from 2018. This was followed by Working Capital with a share of 27.2%.
- In terms of credit products, Renewal/ Restructuring of Existing Loans was the product recording the highest demand, at a share of 26.6% of total credit products.
- SMEs in Qatar have registered an NPL ratio of 5.1%, with medium enterprises having the lowest ratio at 3.9%, compared to 6.9% for small enterprises and 8.3% for micro-enterprises.

