

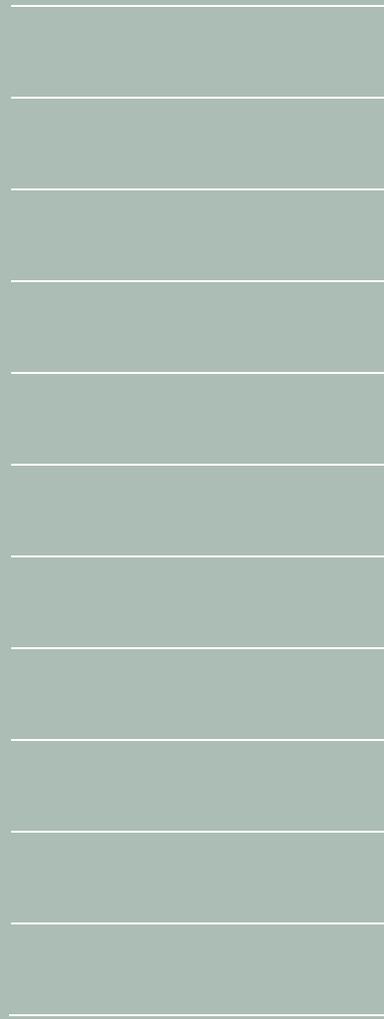


LIETUVOS BANKAS
EUROSISTEMA

REVIEW OF THE SURVEY OF ENTERPRISES

2018

2



ISSN 2538-6875 (ONLINE)

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AIMS, METHODS AND PRINCIPLES OF THE SURVEY

The survey of non-financial enterprises (hereinafter – enterprises)¹ is conducted on a biannual basis with the aim to obtain information on the financial standing and operations of enterprises as well as assess their need for financial resources, changes in borrowing from credit and other financial institutions (hereinafter – credit institutions)², developments in credit standards and other aspects related to the development and sustainability of the corporate sector.

Commissioned by the Bank of Lithuania, the survey was conducted in July 2018. The total sample size was 501 enterprises operating in Lithuania. The respondents surveyed were the management or accounting officers of enterprises classified by main business area and number of employees. Enterprises with less than 50 employees accounted for two-thirds of the surveyed respondents, while those with 50 or more employees made up the remaining share (see Table 1). Further in this review, enterprises with 1-9 employees are referred to as small enterprises, those with 10-49 employees – medium enterprises, those with 50 or more employees – large enterprises.³ The number of surveyed enterprises by business area and county is presented in Table 2.

Table 1. Number of enterprises with a specified number of employees and operating in a specified business area

Number of employees	Industry	Construction	Trade	Services	Total
1-9	30	30	39	68	167
10-49	30	30	48	59	167
50 or more	61	30	31	45	167
Total	121	90	118	172	501

The average period of operation of the surveyed enterprises is 17 years. Approximately 84% of them operated as private or public limited liability companies, 5% were sole proprietorships, while the remaining part was comprised of partnerships, municipal and other enterprises.

Table 2. Number of enterprises by county and business area

County	Industry	Construction	Trade	Services	Total
Alytus	6	5	0	5	16
Kaunas	24	15	34	29	102
Klaipėda	6	14	8	16	44
Marijampolė	1	2	3	5	11
Panevėžys	9	6	7	7	29
Siauliai	16	6	11	13	46
Tauragė	1	1	6	4	12
Telšiai	5	1	2	3	11
Utena	5	2	3	5	15
Vilnius	48	38	44	85	215
Total	121	90	118	172	501

¹ Similar to any selective quantitative research, a statistical error criterion applies to the survey results.

² In this survey, credit and other financial institutions are commercial banks, credit unions, leasing companies and other economic entities engaged in financial activity, from which non-financial enterprises can borrow for their business needs.

³ The classification used by the European Commission and most often encountered in international practice is as follows: micro enterprises are those that have less than 10 employees, small enterprises – 10 to 50 employees, medium enterprises – 50 to 250 employees, and large enterprises – 250 or more employees. Since small and medium businesses dominate in the Lithuanian market, this review uses a classification adapted for Lithuania.

REVIEW OF THE SURVEY RESULTS

The importance of external financing continues to diminish as increasingly more enterprises are planning to finance the bulk of their business activities with internal funds. Roughly 46% of the surveyed reported that they intend to finance 80-100% of their business activities with internal funds. Compared to the previous half-year, the share of such respondents grew by 2 percentage points (10 percentage points over the year). Internal resources were the most relevant source of financing for construction enterprises, the least relevant for enterprises engaged in trade. It is likely that such trends stem from the fact that, due to higher business risk, construction enterprises' access to external financing became more limited. Bank lending remained the most popular source of external financing. Compared to alternative sources, its importance is likely to grow. According to survey results, 53% of all respondents (i.e. 9 percentage points more than half a year ago) use or intend to use bank loans.

Although enterprises indicated that banks' financing conditions remained broadly unchanged, the number of rejected loan applications has risen considerably. Similarly to half a year ago, nearly 48% of the surveyed enterprises reported that lending to businesses was fully or partly limited (e.g. they are not satisfied with financing conditions offered by banks). According to survey results, small and construction enterprises were the most affected by tightening of lending conditions. On the other hand, even though the share of enterprises that are unsatisfied with financing conditions remained unchanged, the number of rejected loan applications or applications to change the terms and conditions of existing credit continues to grow: the survey data indicates that it increased by almost 12 percentage points (to 34%) over the half-year (19 percentage points over the year). As before, most often rejected applications were those of small and trade enterprises. The main reason behind application rejection was the poor financial health of enterprises. Such survey results indicate that even though banks have not tightened financing conditions, the number of rejected applications is following an upward trajectory as the share of higher credit-risk customers among those applying for financing is rising.

The surveyed enterprises believe that, owing to labour shortages, labour market pressures in Lithuania are likely to intensify further, bolstering wage increases; however, the number of enterprises that intend to raise wages in the future in order to overcome this problem has decreased. Nearly half of the surveyed reported that labour shortages were the main reason behind wage increases. A similar share of the surveyed believed that the same will hold true in the nearest half-year as well. On the other hand, even though slightly more than half (57%) of the surveyed enterprises raised wages in the first half of 2018, the share of such respondents slightly reduced (by 3 percentage points) compared to the previous half-year. The share of enterprises that intend to raise wages in the upcoming half-year contracted by 7 percentage points (to 43%), which might signal that the number of enterprises that plan to ease labour market pressures by increasing wages is getting smaller.

Enterprises will find it increasingly more difficult to raise wages, since a rather large share of them face financial resource shortages. According to survey results, more than half of the surveyed enterprises (55%, i.e. 5 percentage points more than half a year ago) reported facing a lack of funds for wage increases. This was particularly relevant to enterprises engaged in construction activities (67%). As previously, pressures in the labour market will be mitigated through immigrant work. Similarly to half a year ago, about 10% of respondents reported having employed foreigners, whereas the share of enterprises planning to increase the number of such workers remained almost unchanged and stood at 14%. Those most keen on immigrant work are large enterprises and enterprises engaged in construction.

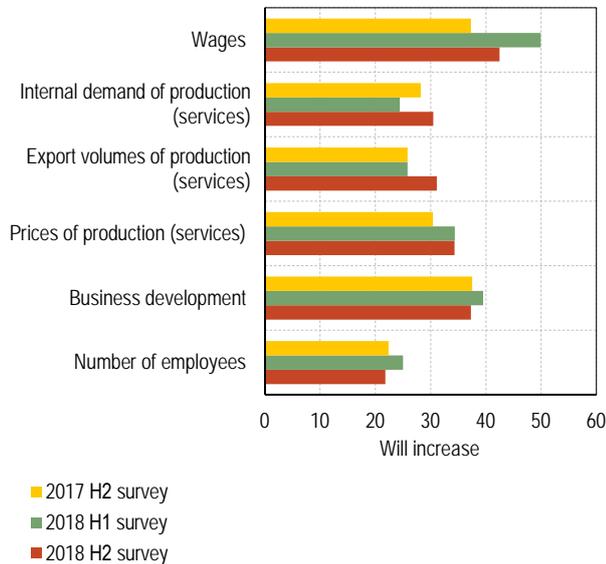
Corporate projections about dynamics of production (services) prices remained largely unchanged over the half-year; however, expectations regarding external and internal demand seem increasingly more optimistic. Slightly more than a third of enterprises – basically unchanged from half a year ago – plan raising the prices for their production (services) over the next twelve months. On the other hand, the number of respondents predicting an increase in demand has escalated. For example, 31% of the surveyed enterprises (i.e. 5 percentage points more than half a year ago) notice export growth trends. A similar share (6 percentage points more than half a year ago) expects internal demand to boost as well. Positive expectations for growth in exports were particularly pronounced in the industrial sector (46%), while an upturn in internal demand, as expected, was mainly projected by enterprises operating in the services sector (32%).

The share of enterprises planning business expansion remained basically unchanged over the half-year. According to survey results, roughly 37% of enterprises plan to expand their business over the upcoming six months (40% half a year ago). Industrial enterprises were most avid in planning investment (45%). Slightly more than a third of enterprises planning business expansion reported they would invest in equipment upgrading. Compared to the previous half-year, the share of such enterprises dropped significantly (by 9 percentage points). The share of construction enterprises that intend to invest in residential construction shows a slight increase (from 10% to 12%). As before, investment activity was mainly suppressed by unfavourable expectations regarding future prospects. This was indicated by more than half of small enterprises (54%), whereas the percentage of those that shared this view within the segment of large enterprises was significantly lower (29%). Large enterprises (26%) also viewed labour shortages and unused production capacity as obstacles to investment.

KEY CHARTS

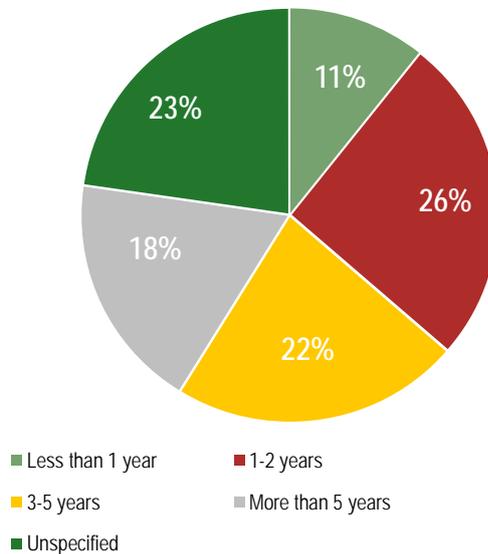
Enterprises that project growth in demand have been growing in number

Share of enterprises projecting increases in wages, prices and other factors (% of total surveyed)



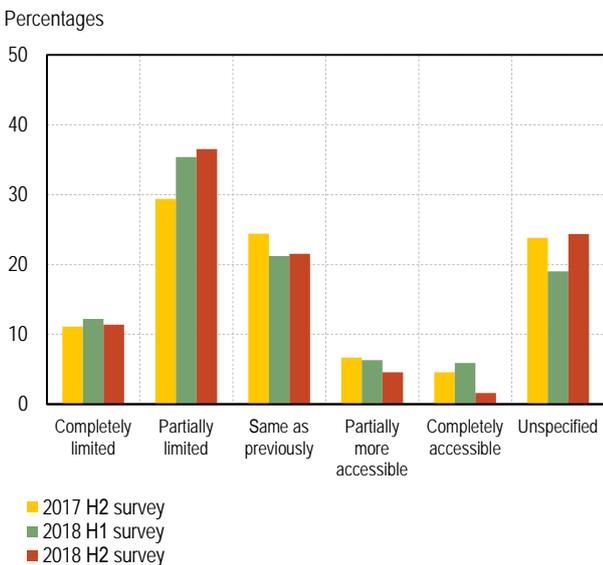
Slightly more than a third of enterprises project long-term wage growth

Forecast for duration of further strong wage growth (% of total surveyed)



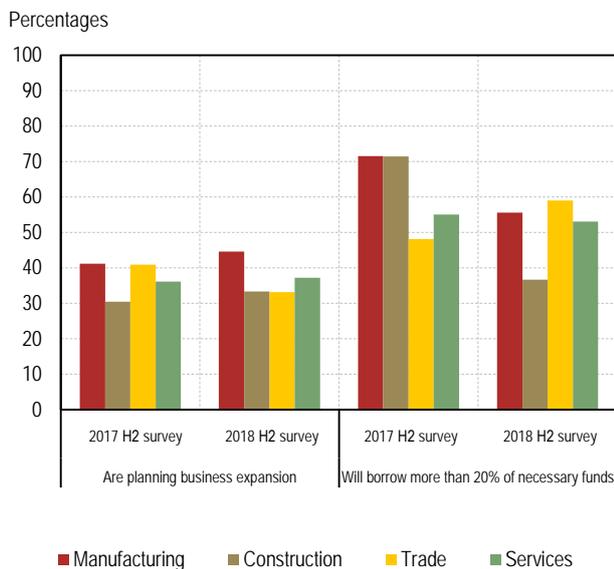
Corporate lending conditions remained basically unchanged

Assessment of availability of corporate loans (% of total surveyed)



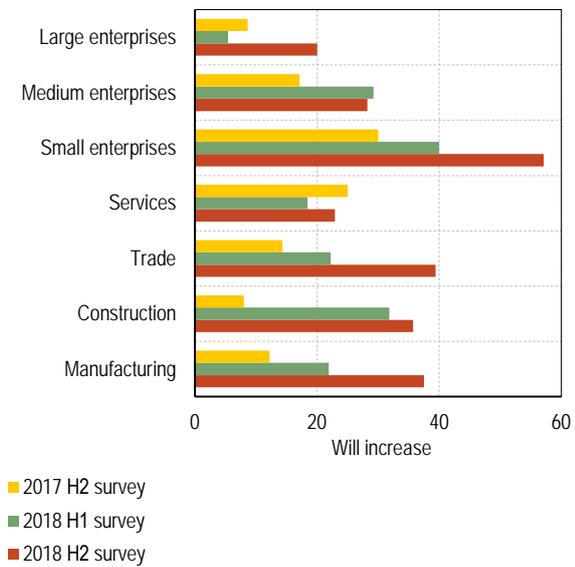
Enterprises engaged in trade activities plan to borrow most actively

Share of enterprises planning business expansion (% of total surveyed) and share of enterprises planning to borrow for business expansion (% of all enterprises planning business expansion)



While lending conditions have not tightened, the number of rejected applications has increased

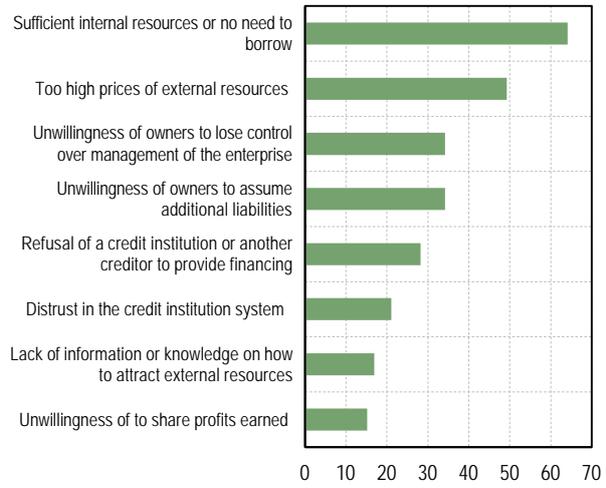
Share of rejected applications (% of all loan applications or applications to change the terms and conditions of the current loan)



Sufficient internal resources are the main reason behind the decision not to borrow

Factors of major importance for choosing internal funding (% of total surveyed*)

Percentages



*The question was answered by 479 out of 501 enterprises.