

REVIEW OF THE SURVEY OF NON-FINANCIAL ENTERPRISES ON BUSINESS FINANCING

October 2012

SUMMARY

- In the opinion of the non-financial enterprises surveyed, the possibilities for obtaining new loans have diminished and lending standards have become tighter over the past six months. Regardless, according to the survey results, the number of enterprises, whose applications concerning borrowing and/or changing the contractual terms and conditions of their existing obligations were fully satisfied has increased.
- Non-financial enterprises finance the bulk (93.5%) of their business expenses using internal financial resources and intend to do so in the future. Internal financial resources are mostly used by small enterprises employing up to 10 people. In the second half of 2012, non-financial enterprises will seek to attract slightly more external financing sources.
- Business expansion plans mostly construction enterprises, while services enterprises are least likely to expand. In the second half of 2012, non-financial enterprises will seek to finance almost 15 per cent of their business expansion through borrowed funds, slightly more than during a similar survey carried out six months ago.
- Bank lending policy changes are not an essential factor limiting the operations of enterprises. Most of the enterprises surveyed saw the reduction of external financing sources as a small difficulty in the first half of 2012 and believed that increased production costs, competition and a potentially heavier tax burden would be more problematic in the future.
- Small and medium-sized enterprises (up to 250 employees) made up the largest part of the respondents. Almost 59 per cent of the enterprises surveyed have up to 10 employees, 31 per cent of them have 10 to 50, and more than 10 per cent have 50 or more employees.

TASKS, METHODS AND PRINCIPLES OF THE SURVEY

Non-financial enterprise surveys on business financing are carried out twice a year to assess the demand of non-financial enterprises for financial resources, changes in the borrowing from credit and other financial institutions¹ (hereinafter—credit institutions) and changes in lending conditions, as well as to obtain information on changes in the financial condition and operations of non-financial enterprises. Non-financial enterprises were surveyed in September 2012, with responses received from 501 non-financial enterprises operating in Lithuania (hereinafter—enterprises).

During the enterprise survey on business financing, ordered by the Bank of Lithuania, managers or accountants of enterprises grouped by economic activity and quotas of the location of registration (taking into account created added value) were interviewed by telephone (CATI).

Table 1. Number of non-financial enterprises involved in the survey by economic activity and location of registration

Counties	Industry	Construction	Trade	Services	Total
Alytus	2	2	5	11	20
Kaunas	10	8	29	55	102
Klaipėda	6	5	14	37	62
Marijampolė	2	1	5	10	18
Panevėžys	4	2	9	20	35
Šiauliai	4	2	10	23	39
Tauragė	1	1	4	6	12
Telšiai	2	2	5	10	19
Utena	2	1	4	9	16
Vilnius	13	14	46	105	178
Total	46	38	131	286	501

The survey questions were divided into four groups: Group 1—demographic aspects and changes in the main financial indicators of non-financial enterprises, Group 2—business financing and its sources, Group 3—borrowing from credit institutions, and Group 4—relations between enterprises and creditors. In interpreting the survey results, it is necessary to take into account the possibility of a statistical error, which is always possible when carrying out sample quantitative studies.

A period of six months in the review means a calendar half-year, i.e. the first half of the year covers the period of January–June, and the second half of the year covers the period of July–December. A net percentage is defined as the difference between the percentage of enterprises responding that lending conditions have been tightened and the percentage of enterprises responding that lending conditions have been eased.

¹ The credit and other financial institutions in this survey are commercial banks, credit unions, leasing companies and other investment entities, from which non-financial enterprises borrow monetary resources for their business needs, and having to repay them later.

A positive net percentage means that the enterprises believe that credit institutions have tightened lending conditions and a negative net percentage (–) means that they have eased lending conditions. The net percentage is similarly interpreted in calculating changes in financial indicators: a positive net percentage means an increase and a negative net percentage means a decrease in an indicator.

RESULTS OF THE SURVEY OF NON-FINANCIAL ENTERPRISES ON BUSINESS FINANCING

Enterprises satisfied an average of over 90 per cent of their business financing needs by using internal sources. According to the survey results, such a choice was predominantly determined by sufficient internal financial resources and enterprise owners' reluctance to assume additional obligations. There should be no significant change in the business financing structure in the future, although in the second half of 2012 non-financial enterprises will aim to attract more external financing sources. Among them, the most popular will be loans granted by credit institutions, account overdrafts, financial leasing, hire-purchase and factoring.

A total of 29.4 per cent of the enterprises surveyed have optimistic business plans and intend to expand their business in the second half of 2012, which is slightly less (–1.9%) than during a similar survey carried out six months ago. Expansion is mostly in the plans of construction enterprises, and services enterprises are least likely to expand. Non-financial enterprises will seek to finance almost 15 per cent of their business expansion using borrowed funds, with the bulk of the borrowed funds to be used in the acquisition of equipment, machinery, supplies and raw materials. Enterprises employing up to 10 people intend to finance 11.7 per cent of their business expansion with borrowed funds, while those with more staff are inclined to attract more external financing sources (18%).

In the first half of 2012, the number of enterprises saying that they had not borrowed monetary resources for their business needs slightly increased and accounted for almost 80 per cent of the respondents. Approximately 90 per cent of the enterprises, employing up to 10 people, satisfied all of their business financing needs entirely from internal sources.

The applications of almost 75 per cent of enterprises, which applied to credit institutions to borrow funds and/or change the contractual terms and conditions of their existing obligations in the first half of 2012, were fully satisfied. Compared to a similar survey carried out six months ago, the percentage of fully satisfied applications increased. Nearly 20 per cent of enterprise applications were rejected, i.e. twice as many as during the survey carried out six months ago. The remaining share of enterprises received smaller loans than they had applied for.

According to the surveyed non-financial enterprises, the possibilities to obtain new loans have diminished (during a similar survey carried out six months ago possibilities to obtain new loans were considered unchanged) and lending standards have become slightly tighter. This was determined by stricter requirements for collateral, whereas the price of business loans from credit institutions dropped. In the first half of 2012 most of the surveyed enterprises saw the decline in financing sources as a minor difficulty. In the future, enterprises expect increases in production costs, competition and a potentially heavier tax burden. The factors that determined the choice of a credit institution did not change over the last six months: favourable lending conditions offered by a credit institution, low service charges and quick decision-making were of utmost importance to enterprises. **85 per cent of the surveyed non-financial enterprises said that the bankruptcy of Bank SNORAS AB had little impact on their activities.** Only 2.6 per cent of the enterprises

saw this event as a major difficulty, although six months ago this number stood at 7.0 per cent. In the second half of 2012, the enterprises expect the severity of this challenge to diminish further.

BUSINESS TRENDS OF NON-FINANCIAL ENTERPRISES

In terms of the number of staff, the largest part of the survey respondents is comprised of small and medium-sized enterprises (up to 250 employees) with an average 10 year period of operation at the time of the survey. A total of 88 per cent of 501 enterprises surveyed operated as public limited or private limited companies, and the remaining part of the respondents consisted of sole proprietorships, partnerships, municipal and other enterprises. Almost 59 per cent of the enterprises surveyed have up to 10 employees, 31 per cent of them have 10 to 50, and more than 10 per cent have 50 or more employees.

In the first half of 2012, almost all of the main financial indicators of the non-financial enterprises surveyed improved (see Chart 1), but the number of profitable enterprises shrank. Sales income and the balance-sheet value of equity increased, but the balance-sheet value of assets went down along with the balance-sheet value of liabilities, and the number of enterprises that expanded their staff exceeded the number of those that reduced it. Although most of the indicators improved, the share of enterprises that were profitable in the first half of 2012 shrank by 4.3 per cent. Two-thirds of the enterprises surveyed were profitable in the first half of 2012. Just as before, better performance results were recorded by enterprises engaged in export-oriented economic activities. However, compared to the second half of 2011, positive export effects on the profitability of enterprises decreased (according to the survey results, enterprises slightly reduced their share of sales to foreign markets in the first half of 2012, from 13.4 to 11.6%).

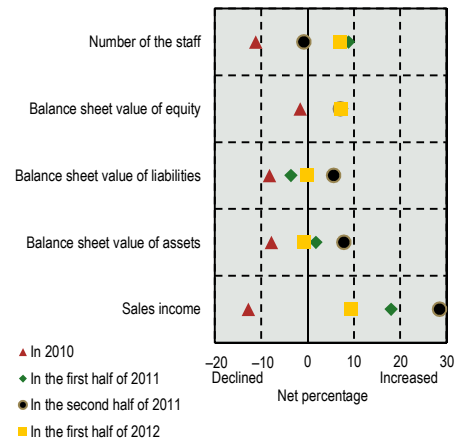
Sales income of a major part of non-financial enterprises remained unchanged or increased. In the first half of 2012, industrial and trade enterprises enjoyed the highest increase in sales income, while that of construction enterprises dropped. The increase in the sales income of industrial enterprises, nearly a quarter of which is received from export markets, can be attributed to demand in foreign markets.

The number of staff was increased most in industrial and trade enterprises, whereas in services enterprises it was reduced. There were equal numbers of construction enterprises that either increased or reduced the number of staff. The growth of staff both at industrial and at trade enterprises can be attributed to an increase in the number of profitable enterprises. Meanwhile, the number of construction and services enterprises that suffered losses went up.

With the performance indicators of non-financial enterprises improving, a greater part of non-financial enterprises did not encounter any significant difficulties. In the first half of 2012, the enterprises surveyed saw the significance of the indicated difficulties to their activities as rather low, except for the lack of customers (see Chart. 2). The latter posed a more serious difficulty to the surveyed non-financial enterprises. The activities of the enterprises in the first half of 2012 were least affected by the initiation of bankruptcy proceedings against Bank SNORAS AB, reduced external funding sources and existing legal (administrative) requirements.

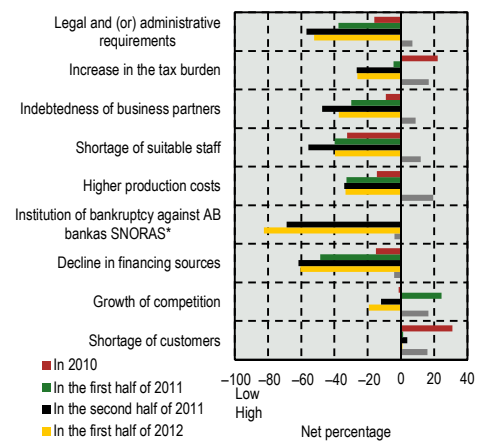
The surveyed non-financial enterprises named higher production costs and competition as the biggest challenges that will be faced by the enterprises in the second half of 2012. Business enterprises also indicated a potential increase in the tax burden as one of the major future

Chart 1. Changes in the main financial indicators and the number of staff of non-financial enterprises



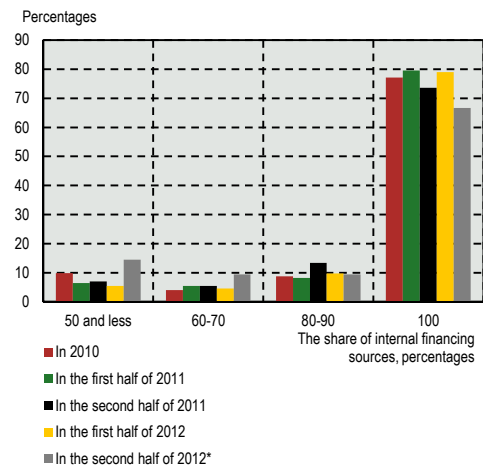
Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.

Chart 2. Significance of difficulties faced by non-financial enterprises and their expected changes in the second half of 2012.



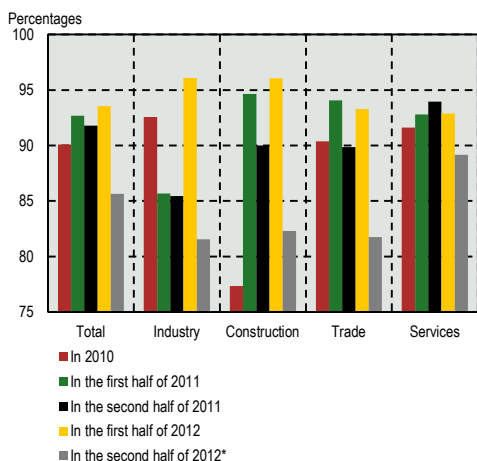
Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.
* This difficulty was assessed in second half of 2011 and first half of 2012

Chart 3. Breakdown of enterprises by the source of satisfying business financing needs



Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.
* Enterprises planning business expansion.

Chart 4. Share of business financing needs satisfied using internal financing resources



Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.
 * Enterprises planning business expansion.

challenges. In the opinion of the surveyed enterprises, the second half of 2012 will see an increase in the shortage of suitable staff and problems with their business partners' indebtedness, with the lack of customers expected to become an even more serious problem.

BUSINESS FINANCING OF NON-FINANCIAL ENTERPRISES AND ITS SOURCES

In the first half of 2012, compared to the second half of 2011, the number of enterprises satisfying all business financing needs using exclusively their internal financing sources slightly increased and made up almost 80 per cent of the survey respondents (see Chart. 3).

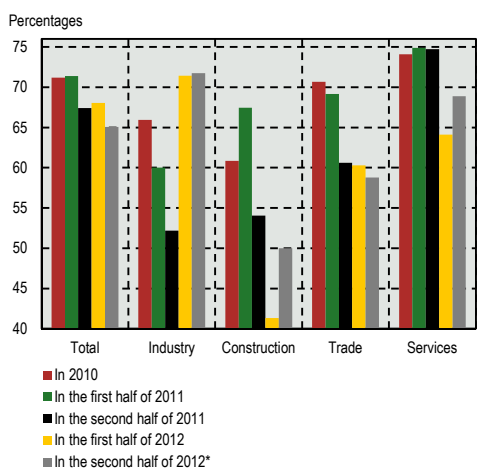
Almost 90 per cent of the enterprises employing up to 10 people satisfied all of their business financing needs entirely from internal financing sources. In the opinion of the respondents that satisfied 50 per cent or more of their business financing needs using internal financing sources, such a choice was predominantly determined by sufficient internal financial resources and enterprise owners' reluctance to assume additional obligations, while the lack of information and refusal by a credit institution to provide financing was seen as least significant. In the first half of 2012, the number of the respondents that satisfied more than 50 per cent of their business financing needs from external financing sources dropped to 3.0 per cent (in 2010, the number stood at 5.6% and did not exceed 4% during subsequent surveys).

The enterprises surveyed in the first half of 2012 satisfied most of their financing needs (93.5%) from internal financing sources (see Chart 4). Enterprises employing up to 10 people satisfied 97.1 per cent and those with 10 and more employees satisfied 88.4 per cent of their financing needs from internal financing sources. The use of external sources declined in enterprises engaged in all types of economic activity, except for services. The use of internal financing sources particularly increased in industrial enterprises (they indicated such a possibility during the previous survey). However, industrial enterprises intend to increase their borrowing in the second half of 2012.

Compared to the results of the previous survey, the share of enterprises planning to change their business financing sources in the second half of 2012 remained almost unchanged. Change of business financing sources was planned by 8.8 per cent of the respondents during a similar survey carried out six months ago and by 8.4 per cent during this survey. As in previous surveys, enterprises intend to increase the use of lending services provided by credit institutions (bank loans, financial leasing, hire-purchase and factoring) and use the European Union funds more actively.

In the second half of 2012, non-financial enterprises will seek to finance almost 15 per cent of business expansion using borrowed funds. A total of 29.4 per cent of the enterprises surveyed have optimistic business plans and intend to expand their business in the second half of 2012, which is slightly less (-1.9%) than during a similar survey carried out six months ago. Expansion is mostly in the plans of construction enterprises and is least likely among services enterprises. According to the results of the survey carried out six months ago, industrial and trade enterprises were more optimistic and services enterprises were more pessimistic about expansion plans. Business expansion financing using borrowed funds in the second half of 2012 is mostly planned by the industrial sector.

Chart 5. Share of non-financial enterprises that did not borrow from credit institutions



Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.
 * Enterprises planning business expansion.

ASSESSMENT OF BORROWING FROM CREDIT INSTITUTIONS

In the first half of 2012, compared to the second half of 2011, the number of enterprises which indicated that they had not borrowed from credit institutions remained almost unchanged at 68.1 per cent (see Chart 5). Enterprises employing up to 10 people made up the largest part of the enterprises that did not borrow (almost 85%). Based on a sector analysis, construction enterprises were the most active, and industrial enterprises were the most passive in cooperating with credit institutions and borrowing financial resources for their business needs. The most popular services of credit institutions among all the non-financial enterprises surveyed were leasing, long-term investment loans and credit lines. Two-thirds of obligations to credit institutions were secured by collateral or guarantees, which were mostly used by industrial and construction companies to secure their financial obligations. At the end of the first half of 2012, the largest share of obligations of non-financial enterprises to credit institutions, compared to total balance-sheet liabilities, was assumed by services enterprises and the smallest share by construction enterprises. In the first half of 2012, compared to the second half of 2011, it was industrial,

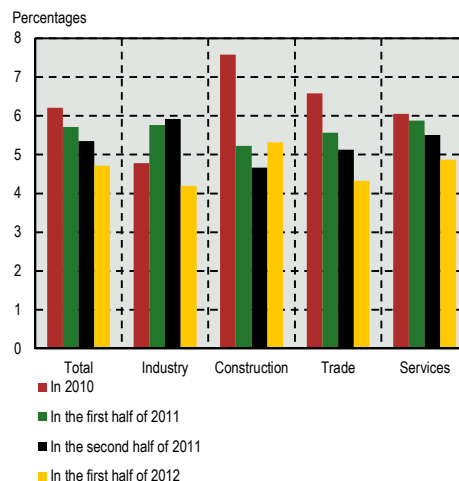
construction and services enterprises said that their need to borrow from credit institutions had increased. Construction enterprises were the most active and trade enterprises were most passive in applying to credit institutions for borrowing and/or changing the contractual terms and conditions of existing obligations.

In the first half of 2012, non-financial enterprises paid an average annual interest of 4.7 per cent on the financial obligations assumed, i.e. 0.7 per cent less than in the previous six months (see Chart 6). In comparison: the weighted average of outstanding loans to non-financial corporations and their interest rates published on the website of the Bank of Lithuania in the first half of 2012 was 4.2 per cent. However, lower interest rates on loans are usually enjoyed by large enterprises, while the survey involved mostly very small, small and medium-sized enterprises. In the first half of 2012, compared to the second half of 2011, the average interest rate decreased for industrial, trade and services enterprises and increased for construction enterprises. Construction and services enterprises borrowed at a higher than average (4.7%) interest rate, while industrial and trade enterprises borrowed at a lower rate.

The share of enterprises already having financial obligations to credit institutions and applying to credit institutions for borrowing or changing the contractual terms and conditions of existing obligations increased in the first half of 2012. More than a quarter of the non-financial enterprises surveyed that already had financial obligations (or 8.4% of all enterprises) applied to credit institutions in the said period for the purpose of borrowing and/or changing the contractual terms and conditions of existing obligations. The applications of almost 75 per cent of all the enterprises were satisfied and the whole amount applied for was loaned, with the applications of nearly one-fifth of the enterprises rejected (see Chart 7). Credit institutions satisfied almost all of the applications of construction enterprises (87.5%) and fully satisfied the applications of industrial enterprises. The largest number of incompletely satisfied or rejected applications came from services enterprises (65.2% of applications were satisfied). Among the reasons for incomplete satisfaction or rejection of applications, enterprises usually indicated unmotivated refusal by a credit institution and the overall economic environment (see Chart 8). According to the enterprises surveyed, borrowing or changing the contractual terms and conditions of existing obligations has become more difficult due to tightened requirements for collateral and easier due to reduced interest rates.

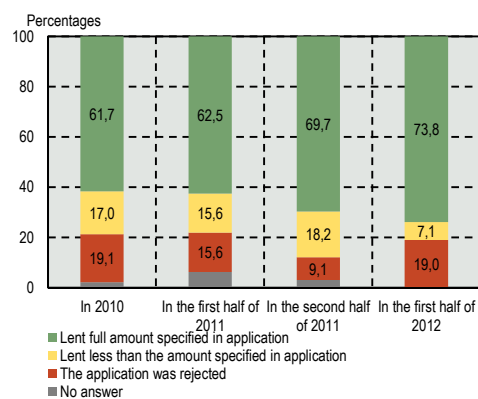
Although, in the opinion of the enterprises surveyed, the

Chart 6. Average annual interest rates on financial obligations assumed by non-financial enterprises



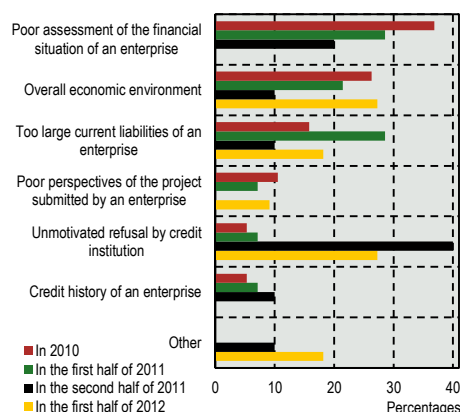
Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.

Chart 7. Satisfaction of applications for borrowing and/or changing the contractual terms and conditions of existing obligations



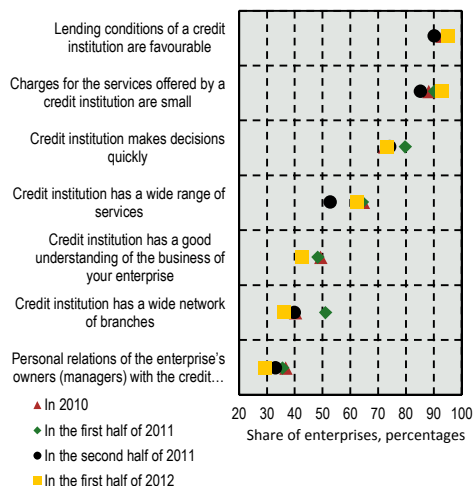
Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.

Chart 8. Reasons for rejection or incomplete satisfaction of applications for borrowing and/or changing the contractual terms and conditions of existing obligations by frequency of their indication



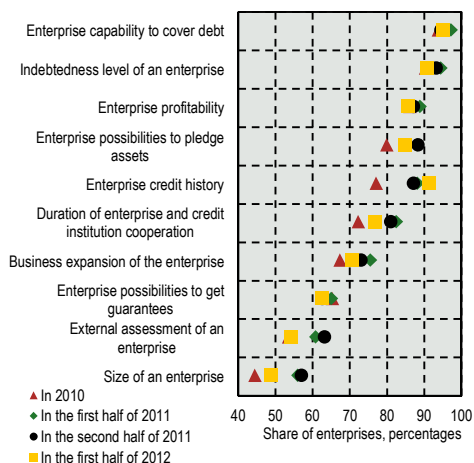
Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.

Chart 9. Share of enterprises that see the indicated factors as important and very important in the selection of a credit institution



Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.

Chart 10. Share of enterprises that see the indicated factors as important and very important for credit institutions making a decision on lending



Sources: Survey of Non-Financial Enterprises on Business Financing ordered by Bank of Lithuania and Bank of Lithuania calculations.

possibilities to obtain new loans have diminished and lending standards have been tightened, enterprises engaged in all types of economic activity intend to borrow more from credit institutions in the second half of 2012. A total of 34.9 per cent of the non-financial enterprises surveyed expressed the need to borrow from credit institutions in the second half of 2012, up by 2.9 per cent compared to the first half of 2012. Industrial and construction enterprises are likely to be the most active borrowers. The number of these enterprises planning to borrow is higher by a fifth than the number of those planning to reduce borrowing. As in previous periods, non-financial enterprises will use the bulk of borrowed funds for the repair or acquisition of equipment, machinery and vehicles (48.4%) as well as for the acquisition of raw materials or supplies (20.0%) and the construction, reconstruction, rental and acquisition of buildings or engineering structures (19.1%).

RELATION BETWEEN THE ENTERPRISE AND THE CREDITOR

Just as in an analogous survey carried out six months ago, non-financial enterprises seek to maintain long-term relations with creditors, although the share of obligations to one credit institution slightly decreased. The factors determining the selection of a credit institution remained unchanged as well (see Chart 9): favourable lending conditions offered by a credit institution, low service charges and quick decision-making were of utmost importance to enterprises, while personal relations of the owners (managers) of an enterprise with a credit institution were least important. In the opinion of the non-financial enterprises surveyed, the most important factor for a credit institution making a decision on lending is the enterprise's ability to cover debts, its level of indebtedness and credit history (see Chart 10). The least important

factor was market share of enterprises. The factors, based on which non-financial enterprises make decisions on cooperation with credit institutions and the factors which, according to enterprises engaged in individual economic activities, are important for a credit institution in making a decision to lend, are basically the same among enterprises engaged in different economic activities.

The review has been prepared by the Financial Stability Department of the Economics and Financial Stability Service of the Bank of Lithuania