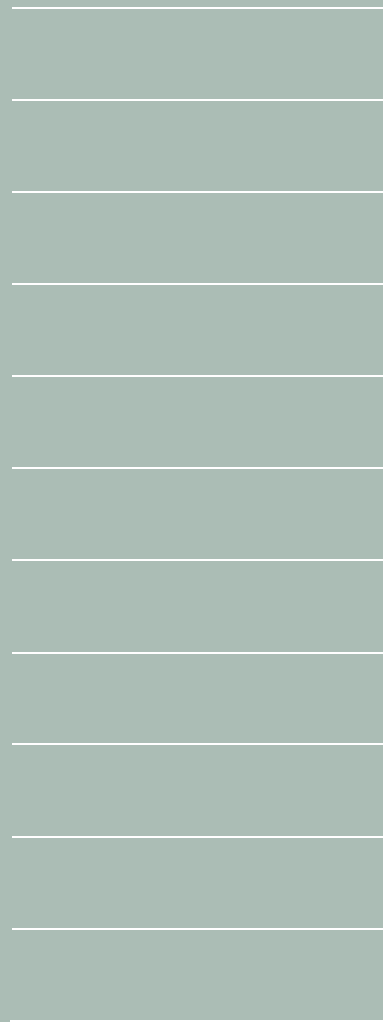




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REVIEW OF THE SURVEY OF ENTERPRISES

2018



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AIMS, METHODS AND PRINCIPLES OF THE SURVEY

Surveys of Non-financial Enterprises (hereinafter – enterprises)¹ are conducted biannually in order to obtain information on the trends in the financial standing and operations of enterprises, assess the demand of enterprises 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 of the enterprise sector and its sustainability.

Commissioned by the Bank of Lithuania, the Survey was conducted in February 2018; responses were received from 509 enterprises operating in Lithuania. During the Survey, heads or financiers of enterprises, classified by main business area and number of employees, were surveyed. Enterprises with up to 50 employees accounted for two-thirds of the surveyed respondents, while those with 50 employees and above made up the rest of the respondents (see Table 1). Further in this Review, enterprises having less than 9 employees are referred to as small enterprises, those having more than 10 but less than 50 employees – medium enterprises, and those with more than 50 employees – large enterprises³. The number of surveyed enterprises by business area and county is presented in Table 2.

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

Number of employees	Industry	Construction	Trade	Services	Total
1–9	31	33	46	64	174
10-49	30	32	50	58	170
50 and more	55	30	31	49	165
Total	116	95	127	171	509

The average period of operation of the surveyed enterprises is 17 years. About 88% of the surveyed enterprises operated as private or public limited liability companies, 8% were comprised of sole proprietorships, while the rest of them included partnerships, municipal and other enterprises.

Table 2. Number of surveyed enterprises by county and business area

County	Industry	Construction	Trade	Services	Total
Alytus	6	4	3	7	20
Kaunas	34	22	35	35	126
Klaipėda	12	20	14	24	70
Marijampolė	1	3	5	8	17
Panevėžys	9	10	8	9	36
Šiauliai	8	7	6	12	33
Tauragė	5	1	5	3	14
Telšiai	5	2	1	2	10
Utena	6	1	3	5	15
Vilnius	30	25	47	66	168
Total	116	95	127	171	509

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

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 division used by the European Commission and most often encountered in international practice is as follows: very small enterprises are those that have less than 10 employees, small enterprises – 10 to 50 employees, medium enterprises – 50 to 250 employees, and large enterprises – more than 250 employees. Since small and medium businesses dominate in Lithuania, the enterprise classification adapted for Lithuania is applied in this Review.

REVIEW OF THE SURVEY RESULTS

The surveyed enterprises hold the opinion that labour market pressures in Lithuania remain high; the issue of labour shortage continues to be addressed through wage increases and efficiency improvement. Almost 60% of the surveyed reported that they increased wages during the recent six months. Compared to the previous half-year, the share of such enterprises grew by almost 6 percentage points. Enterprises that plan raising wages in the future increased fast in number. The share of such enterprises soared almost 13 percentage points over the half-year (to 50%). The share of those who believe that the trends of strong wage growth will continue for more than two years expanded as well (from 39% to 46%). As an alternative to wage increases, some respondents reported improvement of operational efficiency. Nearly a third of enterprises reported that the number of their employees declined over the last six months. Compared to the previous half-year, the number of such enterprises grew by 8 percentage points. This shows that, with labour shortage in place, enterprises improve their efficiency, thereby managing with fewer employees. Enterprises that intend to address the issue of labour shortage through hiring employees from abroad are also growing in number, while the share of those that have actually done it currently stands at 10%: compared to the previous half-year, their number remained almost unchanged.

Enterprise projections about export expansion and price dynamics remained significantly unchanged over the half-year; however, there is increasingly more pessimism about internal demand. Slightly more than a fourth of enterprises expect their production exports will grow over the next twelve months. One-third of the surveyed plan to price increases for their production (services). Compared to the previous half-year, these shares remained almost unchanged. However, there are increasingly more enterprises that are concerned about a likely decline in domestic demand. One-fifth of the surveyed participants projected that the domestic demand would fall over the next six months. The differential between the shares of enterprises projecting growth in demand and a decline in demand contracted by 8.4 percentage points (from 13.3 to 4.9 percentage points).

The share of enterprises planning business expansion remains unchanged yet negative expectations about future prospects hinder more active investment. About 40% of enterprises plan to take up business expansion over the upcoming six months (half a year earlier – 38%), according to the survey. Doing this was mostly planned by small and service enterprises (44% and 43% respectively). It is planned to allocate nearly half of funds necessary for expansion for upgrading equipment. Investment activity is further mainly suppressed by unfavourable expectations for future prospects. Nearly half of enterprises that do not plan expansion reported low expectations as the main reason hindering investment. Negative expectations about the future were mainly emphasised by small enterprises and those engaged in the trade activity.

There was an increase in the share of enterprises that finance the bulk of their business expansion using internal resources. About 44% of the surveyed reported that they would get 80–100% of funds necessary for expansion from their internal resources. Compared to the previous half-year this share swelled by 7 percentage points. Financing activity from internal resources was mainly planned by trade enterprises, whereas enterprises engaged in production planned it least frequently. The popularity of virtual currencies, as a funding means is likely to increase in the future, the survey results also show. Almost 5% of enterprises reported that they use virtual currencies in financing their activities. Slightly more than 6% of enterprises claimed they would increase their use of virtual currencies or would start using them. Large enterprises and enterprises engaged in trade intend to be most active in using this funding means.

According to the surveyed enterprises, banks' financing conditions tightened. Nearly half of the surveyed enterprises reported that lending to businesses is currently fully or partly limited (e.g. they are not satisfied with the financing conditions offered by banks). The share of so thinking picked up by 7 percentage points over the half-year. Small and medium-sized as well as trade enterprises claimed having faced a tightening of standards the most. The share of enterprises that have applied to credit institutions for a new loan or the change of the terms and conditions of the existing loan remained almost unchanged over the half-year and accounted for a fourth. Nevertheless, the number of rejected applications increased substantially. Applications rejected accounted for about a fifth (7 percentage points more than a year earlier). Applications of small and trade enterprises were rejected most often. About 40% of small enterprises that have applied to banks claimed that their applications were rejected, whereas within the segment of large enterprises this share was just 5%. The main reasons for the rejection of applications remained unchanged. Almost 30% of applications were rejected owing to the poor financial situation of an enterprise.

Borrowing for equipment, machinery and vehicles grew, while borrowing for services dropped over the half-year. Equipment and vehicles, as the purpose of the loan was mentioned by more than half (51%) of a total of enterprises that have borrowed, i.e. 7 percentage points more than a year ago. Borrowing for services (e.g. design works) dropped by almost 10 percentage points (to 10%). Financing needs for buildings or raw materials remained almost unchanged. Naturally, trade and service enterprises borrowed for the purchasing of equipment and vehicles most frequently (69% and 61%). Here, large enterprises also stood out, which borrowed for equipment and vehicles much more often (55%) than small enterprises (39%). Enterprises hold the opinion that, when taking a decision on granting a loan, credit institutions consider the borrower's ability to repay the loan and the existing debt level as the major

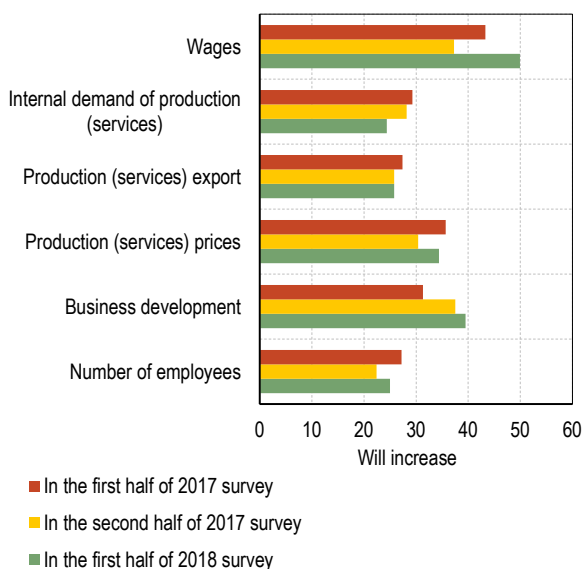
factors, whereas the size of the enterprise, its growth potential or the duration of cooperation with the credit institution are considered as much less significant.

When asked which reforms should be pushed through primarily, most enterprises (50%) reported the tax area. Education reform was singled out as a major one as well. 16% of the surveyed emphasised its importance. The share of enterprises that preferred health care and public sector reforms was relatively small (13% and 8% respectively). Small and medium-sized enterprises as well as enterprises engaged in construction emphasised the need for tax reforms in particular.

KEY CHARTS

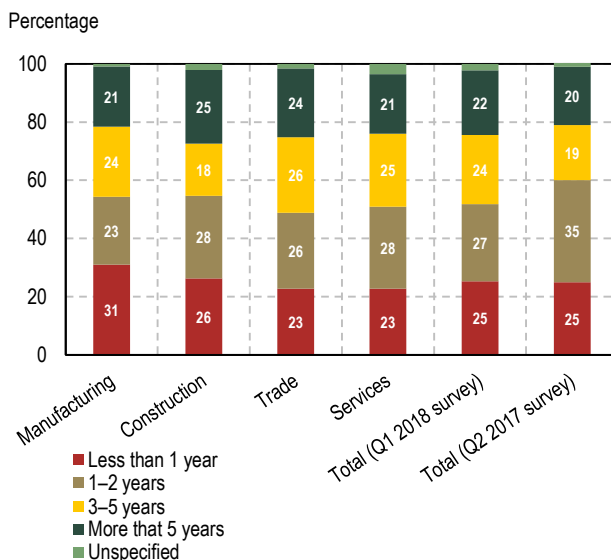
An increasingly large number of enterprises plan business expansion

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



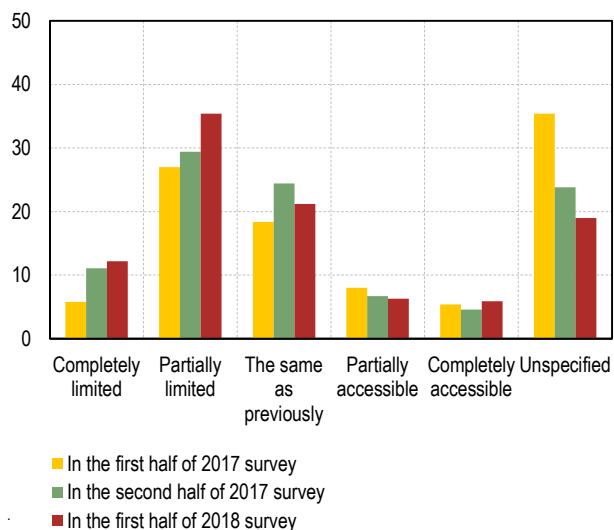
Enterprises that project further strong wage growth have been growing in number

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



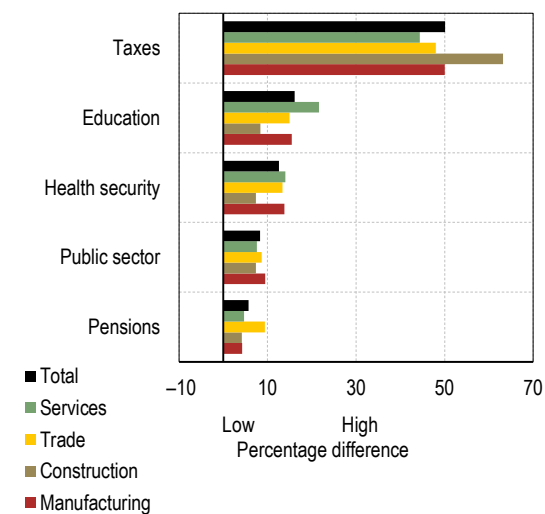
Enterprises claiming that credit standards for enterprises tightened have been increasing in number

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



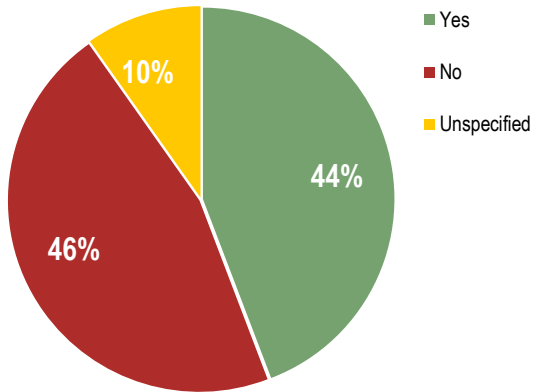
According to the surveyed, tax reform should be implemented most urgently

Area which should be reformed urgently (% of total surveyed)



Quite a large share of enterprises plans to invest significantly in equipment upgrading

Enterprise plans to significantly invest in equipment upgrading (% of total surveyed)



Enterprises operating in Lithuania further feel no great need of alternative financing, i.e. financing from non-banks.

Distribution of enterprises by alternative funding needs (% of total surveyed)

