LIETUVOS BANKAS

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

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The survey of non-financial enterprises on business financing is aimed at the assessment of demand of non-financial enterprises for financial resources, changes in borrowing from credit and other financial institutions as well as changes in lending conditions, also, obtainment of information on changes in the financial conditions and operations of non-financial enterprises.

In preparation of the review of the survey of non-financial enterprises on business financing, data of non-financial enterprises survey, conducted upon the order of the Bank of Lithuania, was used.

Note: It should be noted that due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys of non-financial enterprises on business financing. Thus, the charts presented in this review illustrating the results of previous surveys are to be used for information purposes only.

TASKS, METHODS AND PRINCIPLES OF THE SURVEY

Surveys of non-financial enterprises on business financing are carried out twice a year to assess the demand of non-financial enterprises for financial resources, changes in borrowing from credit and other financial institutions[1] (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 March 2013, with responses received from 500 non-financial enterprises operating in Lithuania (hereinafter — "enterprises").

During the survey of enterprises on business financing, ordered by the Bank of Lithuania, managers and accountants of enterprises grouped by economic activity (taking into account created added value) and the number of employees were interviewed by telephone (CATI). Enterprises with up to 50 employees accounted for two-thirds of the survey respondents, while those having 50 and more employees made up one-third of the respondents (see Table 1). The average business period of surveyed enterprises is 15 years. More than 90 percent of surveyed enterprises operated as private or public limited liability companies, while the remaining part of enterprises consisted of sole proprietorships, partnerships, municipal and other enterprises.

Table 1. Number of enterprises involved in the survey by economic activity and number of employees

Number of employees	Industry	Construction	Trade	Services	Total
1–9 employees	31	29	39	68	167
10–49 employees	31	30	46	60	167
50 and more	64	31	30	41	166
Total	126	90	115	169	500

Table 2. Number of enterprises involved in the survey by economic activity and location of registration

Counties	Industry	Construction	Trade	Services	Total
Alytus	7	5	4	4	20
Kaunas	29	13	32	26	100
Klaipėda	7	14	6	36	63
Marijampolė	5	3	6	12	26
Panevėžys	14	9	8	9	40
Šiauliai	10	8	11	26	55
Tauragė	3	0	1	8	12
Telšiai	4	7	7	4	22
Utena	7	2	1	8	18
Vilnius	40	29	39	36	144
Total	126	90	115	169	500

The survey consists of 4 parts. The first part summarizes the data on demographic aspects and changes in the main financial indicators of enterprises. The second part examines business financing and the sources thereof. The third part provides the assessment of borrowing from credit institutions, and the fourth part discusses the 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, while 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. A positive net percentage means that enterprises believe that credit institutions have tightened lending conditions and a negative net percentage (with a minus sign) 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.

[1] In this survey, credit and other financial institutions are commercial banks, credit unions, leasing companies and other investment entities, from which non-financial enterprises borrow monetary resources for their business needs that they have to repay on later.

SUMMARY

- All financial indicators of the companies surveyed improved in the second half of 2012: sales revenues as well as value of equity and assets grew. Almost three-fourths of the enterprises surveyed were profitable.
- When asked to specify how the difficulties experienced would change in the second half-year, the enterprises surveyed indicated that production costs would increase and competition would become stronger, while the shortage of customers or attraction of financing sources would become less relevant. Upon the on-going discussions in the public space on tax review, the business identified the possible increase of a tax burden as one of the most important future problems.
- In the second half of 2012, almost two-thirds of enterprises surveyed satisfied all their business financial needs using internal financing sources. The decision to refrain from borrowing was mostly influenced by sufficient internal resources.
- More than one-third of the enterprises surveyed plan business expansion in the first half of 2013. Construction and industrial companies are among those that plan to expand their businesses the most.
- Almost half of the enterprises surveyed indicated the need for borrowing from credit institutions. Industrial and construction companies are likely to be the most active borrowers. Almost half of the enterprises will use the borrowed funds for the repair or acquisition of equipment, machinery and vehicles.
- Two-thirds of borrowing enterprises believed that borrowing conditions remained the same, however, there were more enterprises that indicated that the borrowing conditions have eased, than those that claimed them to have become tighter.

SUMMARY OF THE SURVEY RESULTS

1. Business Trends of Non-financial Enterprises

In the second half of 2012, almost all of the main financial indicators of the non-financial enterprises surveyed improved (see Chart 1), the number of profitable enterprises increased. Sales income and the book value of equity and assets increased; also, the number of enterprises that expanded their staff exceeded the number of those that reduced it. In the second half of 2012, the share of enterprises that earned profit increased by more than 5 percent, while almost three-fourths of the enterprises surveyed were profitable. In the second half of 2012, the number of profitable construction companies increased significantly (by more than one-fifth). Better performance results were also achieved by more export-oriented companies.

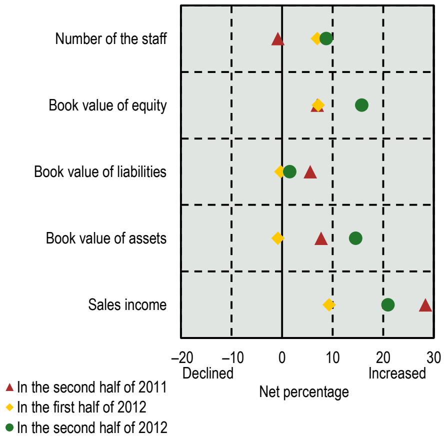
Sales income of almost 40 per cent of the enterprises surveyed increased, while it remained unchanged for slightly more than 40 percent of them. In the second half of 2012, the highest increase in sales income was experienced by construction enterprises — there were more than half of such companies. Industrial and trade enterprises were only slightly behind them. More than one-fourth of service enterprises increased their sales income, however, there were almost as many of those whose sales declined.

The number of employees increased in all sectors except for construction. It increased in one-third of the industrial companies surveyed. The growth of the number of employees in this sector can be attributed to the fact that it showed very good results. In the construction sector there were more enterprises reducing the number of employees than those increasing it, however, the difference was minor. Even though the improved financial indicators of construction enterprises allowed to anticipate the increase in the number of employees, the decline in 2012 of the value added created by enterprises working in this sector did not allow expatiations to materialise.

In the presence of good performance indicators, the significance of the difficulties faced by the enterprises was low to the majority of them. In the second half of 2012, the enterprises surveyed saw the significance of indicated difficulties on their activities as rather low (see Chart 2). Only the construction enterprises surveyed named the shortage of customers and increased competition as a big rather than small difficulty. Also, the construction enterprises found the indebtedness of business partners and attraction of financing sources to be more relevant as compared to other sectors. The industrial enterprises stood out in the survey as they evaluated all the difficulties as very insignificant.

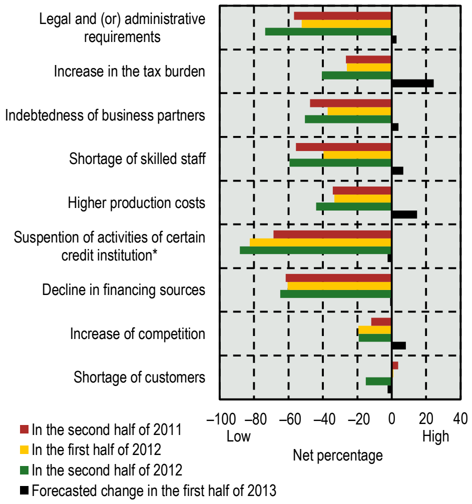
Upon the on-going discussions in the public space on tax review, the business identified the possible increase of a tax burden as the most important future problem. The enterprises named increased production costs and competition among the greatest difficulties to be encountered in the first half year of 2013. Enterprises operating in the industry and construction sectors were convinced the most that the production costs will increase. The enterprises surveyed believe that in the first half of 2013 it will be easier to attract customers or funding from external financing sources. Construction sector enterprises single out of the overall results and view the lack of qualified staff as well as the increase in competition as very important future problems.

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



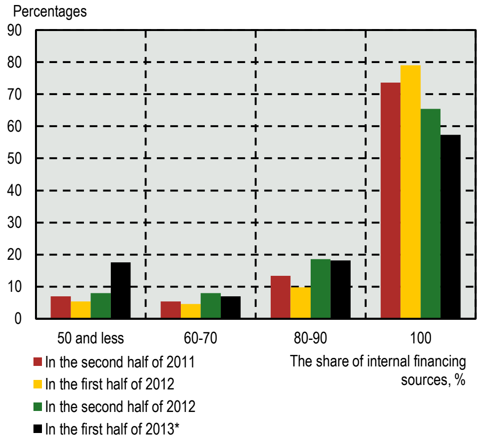
Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys

Chart 2. Significance of difficulties faced by non-financial enterprises and expected changes thereof in the first half of 2013.



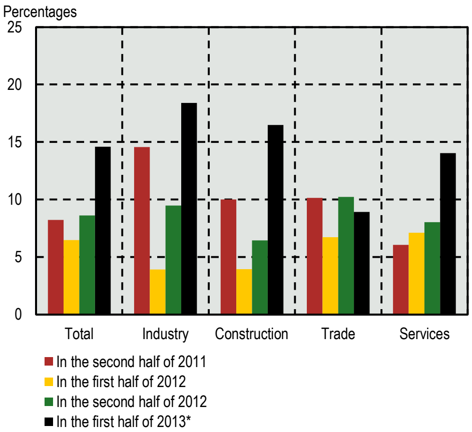
Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys
** This difficulty was assessed in second half of 2011 -2012*

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



Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys
**Enterprises planning business expansion.*

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



Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys
**Enterprises planning business expansion.*

2. Business Financing of Non-financial Enterprises and Its Sources

In the second half of 2012, almost two-thirds of the enterprises surveyed satisfied their business financing needs using exclusively their internal financing sources (see Chart 3). In the opinion of the respondents that satisfied 50 percent or more of their business financing needs using internal financing sources, such a choice was predominantly determined by sufficient internal financial resources, while the lack of information, unwillingness of owners to share profits or distrust in credit institutions were seen as least significant. Construction and service sectors were more apt to borrowing. 16 percent of enterprises that satisfied more than half of their business financing needs using internal financing sources believe that attracting external financing sources is expensive.

In the second half of 2012, the enterprises surveyed satisfied on average one-tenth of their financing needs from external financing sources (see Chart 4). The most popular among them were bank loans (used by 29% of the enterprises surveyed), leasing and factoring (23%), account overdrafts and lines of credit (18%). Construction and service companies used external resources less, however, construction companies plan to actively use external financing sources in the future.

8 percent of the enterprises surveyed planned to change their business financing sources in the first half of 2013. Industrial and construction companies are most likely to do that. The enterprises surveyed mostly plan to use bank loans, account overdrafts and lines of credit. Trade and industrial enterprises plan to attract additional funds by increasing their share capital.

In the first half of 2013, 36 percent of the enterprises surveyed plan for the expansion of their business, and they will seek to finance almost 15 percent of it using borrowed funds. More than half of the enterprises indicated that they will finance their business expansion using internal sources only. Expansion is mostly in the plans of construction and industrial enterprises, and is least likely among services enterprises. Among the construction enterprises surveyed, almost one-third of them plan to finance 50 percent and more of business expansion using borrowed funds, and only one-fifth of industrial enterprises plan to do the same. The majority of trade companies will finance their business expansion using their own funds for the most part.

3. Assessment of Borrowing from Credit Institutions

Almost 52 percent of the companies surveyed indicated that they had not borrowed from credit institutions (see Chart 5). Enterprises employing up to 50 employees accounted for almost 92 percent of the enterprises that did not borrow. Based on sector analysis, industrial enterprises were the most active and services enterprises were the most passive in cooperating with credit institutions and borrowing financial resources for their business needs. Three-fourths of obligations to credit institutions were secured by collateral or guarantees, which were mostly used by industrial and trade companies to secure their financial obligations. At the end of the second half of 2012, the largest share of obligations to credit institutions, compared to total balance-sheet liabilities, was assumed by service enterprises, while the smallest share — by trade enterprises.

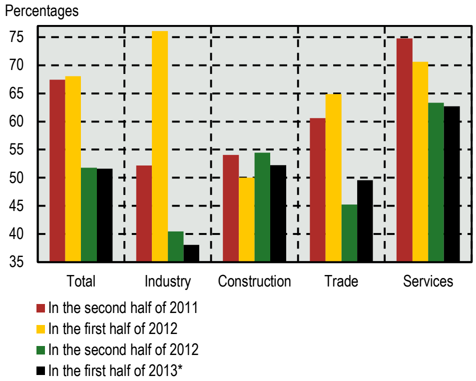
In the second half of 2012, enterprises on the assumed financial obligations paid an average annual interest of 4.3 per cent (see Chart 6). Lower interest rates (4.0%) on loans were paid by enterprises employing 50 and more employees. The interest rate of 4.6 percent was applied to smaller enterprises surveyed. The enterprises surveyed indicated that in the second half of 2012 the average interest rate decreased for one-third of them, and it remained the same for almost two-thirds of them.

In the second half of 2012, more than 40 percent of enterprises already having financial obligations applied to credit institutions for borrowing or changing the contractual terms and conditions of existing obligations. More than four-fifths of the applications were satisfied and the entire amount applied for was loaned (see Chart 7). Credit institutions satisfied the most applications of trade enterprises (92%) and the least (75%) — of the industrial enterprises. Among the reasons for incomplete satisfaction or rejection of applications, mostly was already large financial obligations assumed by an enterprise (see Chart 8). According to the enterprises surveyed, the possibility to borrow or change the contractual terms and conditions of the existing obligations has remained almost the same, even though industrial enterprises believe that the possibility to borrow has become easier, while service enterprises said that it has become difficult.

Almost two-thirds of the companies having financial obligations to credit institutions believe that conditions for borrowing remained the same, however, there were more enterprises that indicated that lending conditions were loosened, than those that indicated that they were tightened. The conditions were loosened mainly due to the decreased new loan to value ratio, even though the quality requirements for the assets pledged remained essentially unchanged. Enterprises employing 50 and more employees indicated that borrowing conditions became looser, while almost one-third of smaller enterprises felt that they were tightened up.

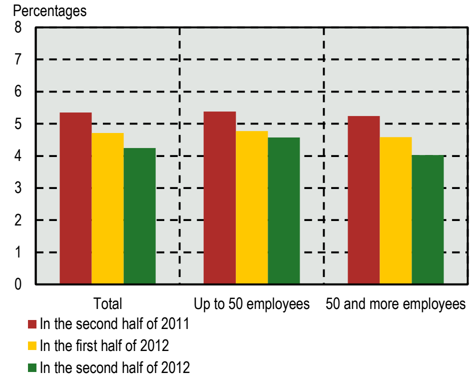
In the first half of 2013, enterprises engaged in all types of economic activity intend to borrow more from credit institutions. Industrial and construction companies are likely to be the most active borrowers. More than one-third of enterprises having financial obligations to credit institutions plan to borrow more, while less than one-tenth plan to reduce their borrowing. Non-financial enterprises will use the bulk of borrowed funds for the repair or acquisition of equipment, machinery and vehicles (44%) as well as for the acquisition of raw materials or supplies (25%), and the construction, reconstruction, rental or acquisition of buildings or engineering structures (14%).

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



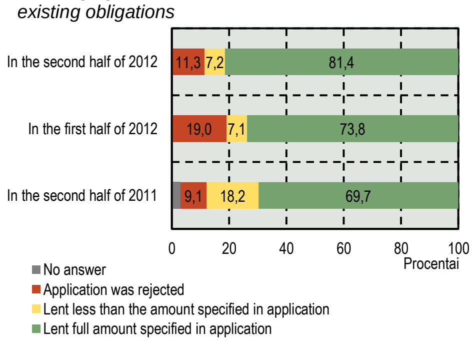
Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys
**Enterprises planning business expansion.*

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



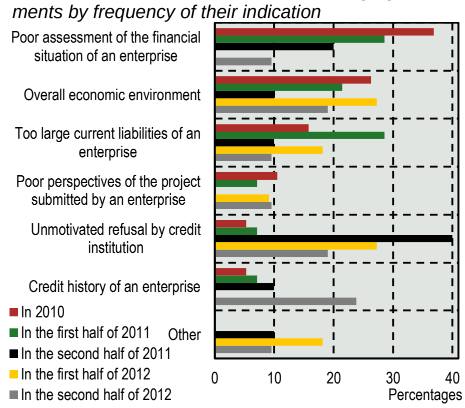
Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys
**Enterprises planning business expansion.*

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



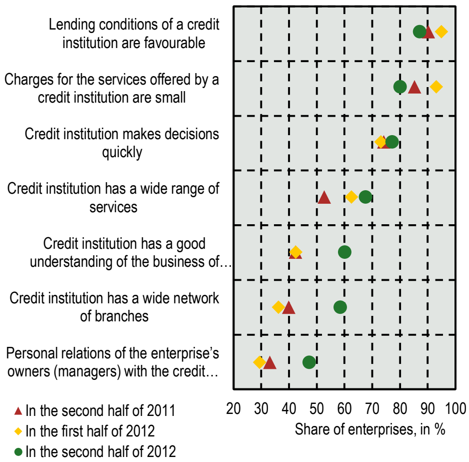
Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys

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



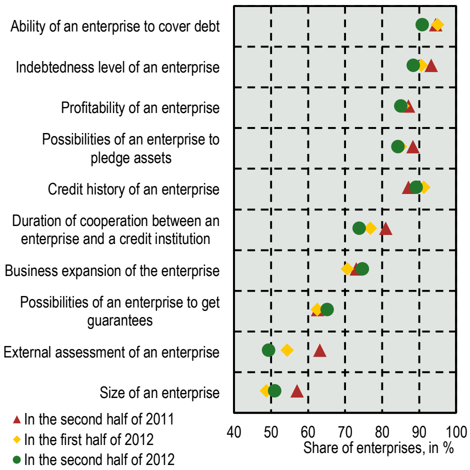
Sources: Survey of non-financial enterprises on business financing
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys

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
Note: Due to the changed survey methodology, the results thereof are incomparable with the previously conducted surveys

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



Sources: Survey of non-financial enterprises on business financing
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4. Relations Between a Non-financial Enterprise and a Creditor

The most important factors determining the selection of a credit institution were favourable lending conditions offered by a credit institution, low service charges and quick decision-making process (see Chart 9). Personal relations of the owners (managers) of an enterprise with a credit institution were least important in selecting a credit institution. In the opinion of the enterprises surveyed, the most important factor for a credit institution making a decision on lending was the ability of an enterprise to cover its debts, its level of indebtedness and credit history (see Chart 10). The least important factor named by the enterprises was their market share. The factors named by the enterprises surveyed as important for a credit institution when making a decision on lending were almost the same among enterprises engaged various economic activities. According to the industrial enterprises surveyed, credit institutions found their credit history and profitability (net profit margin ratio) to be less important. Trade enterprises indicated that credit institutions were more focused on the duration of cooperation with them, while construction companies believed that the ability to receive funding was increased by additional guarantees.

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