



## **REVIEW OF THE BANK LENDING SURVEY AND THE SURVEY OF NON-FINANCIAL ENTERPRISES ON BUSINESS FINANCING**

**OCTOBER 2011**

### **SUMMARY OF SURVEY RESULTS**

- Banks state that they have been moderately easing credit standards for the second half-year in turn. The largest impact on credit standards was made by reducing interest rate margins on loans and constraints on the size of loans and credit lines. Although requirements for the loan-to-value ratio had been eased, the collateral quality assessment was tightened;
- Improving macroeconomic expectations and a stronger competition in the credit market were the main factors behind the easing of the bank lending policy of banks. However, a more buoyant easing of lending conditions was restricted by the remaining risk of individual business sectors (real estate, construction, hotels and restaurants);
- According to non-financial enterprises, credit standards applied by credit institutions in the first half of 2011 were somewhat tighter than those applied in the second half of 2010, and possibilities for new loans worsened due to the impact of more stringent requirements for real estate being pledged.
- Almost a half of enterprises requesting lending in the first half of 2011 were fully satisfied these requests, while the share of rejected requests shrank compared to 2010. Better credit possibilities for enterprises were formed by a substantially improved business financial standing.
- As in the previous half-year, non-financial enterprises intend to finance the major share of their expenses by internal financial resources, however, a larger number of enterprises is planning to expand their business and more enterprises intend to request credit institutions for funds. The banks that participated in the survey also expect the growth of demand for lending.
- In the coming half-year (to April 2012) the majority of banks have further plans to moderately ease lending conditions and expect the gross value of the loan portfolio<sup>1</sup> to increase in 2012 by 1-5 per cent.
- Changes of the bank lending policy are not the key factor limiting the business of enterprises. The business treated smaller financial recourses as an insignificant problem in the first half of 2011 and do not expect a rise of the significance of this problem in the second half-year. The largest constraints of the business of enterprises in the nearest half-year will be entailed by a heavier tax burden and increased production costs.
- To compare with the results of the April Survey, banks are somewhat more pessimistic in assessing prospects of the real estate market: the number of respondents expecting the end of the market stagnation in 2012 and not in 2011, as projected earlier, has increased markedly;
- Slightly more than a half of the respondents (56%) forecast that in the coming 12 months prices of real estate will not change, although a large part of the surveyed banks (33%) indicated that the price would increase to 10 per cent.

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<sup>1</sup> Loan portfolio against the value impairment



## I. Tasks, Methods and Principles of the Surveys

Lending surveys of commercial banks and foreign bank branches and surveys of non-financial enterprises on business financing are organised twice a year in order to obtain information on non-interest bearing terms and conditions for loans, borrowing costs and market expectations, as well as to assess the demand of non-financial enterprises for financial resources, changes in the borrowing from credit institutions and shifts in lending conditions. Surveys of banks and non-financial enterprises were conducted in August-September 2011, respondents were 8 commercial banks and 4 foreign bank branches (hereinafter referred to as "banks") and 500 enterprises operating in Lithuania (hereinafter referred to as "enterprises").

The holders of management positions in banks were requested to indicate changes of lending conditions set by banks to households and non-financial enterprises over the period from the end of April 2011 to the end of October 2011. In their responses regarding the likely situation in the future, the respondents were requested to assess possible changes in lending conditions during the coming six months (October 2011 – April 2012). This Bank Lending Survey presents a summarized opinion of the respondents which does not necessarily reflect official views and assessments of banks, the Bank of Lithuania or its staff members. When making general conclusions and calculating the percentage of banks that have chosen a particular version of given answers, responses of individual banks were given the same weight regardless of their market share.

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

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

District	Industry	Construction	Trade	Services	Total
Alytus	2	1	6	10	19
Kaunas	9	13	27	53	102
Klaipėda	5	6	15	36	62
Marijampolė	3	1	4	10	18
Panevėžys	4	2	10	20	36
Šiauliai	5	3	9	22	39
Tauragė	1	1	3	7	12
Telšiai	2	2	6	9	19
Utena	2	1	4	9	16
Vilnius	14	16	49	98	177
Total	47	46	133	274	500

The Survey questions were grouped into four groups: Group 1 – demographic aspects and development of the main financial indicators of a non-financial corporation, Group 2 – business financing and its sources, Group 3 – borrowing from credit institutions, and Group 4 – relations between enterprises and creditors. When interpreting the survey results, it is necessary to take into consideration a possibility of the statistical discrepancy, which is always possible when performing selective quantitative research.

**A net percentage is defined as the difference between the share of banks reporting that lending conditions have been tightened (demand increased) and the share of banks reporting that lending conditions have been eased (demand decreased).** Positive or negative differentials mean that the majority of banks raised or lowered crediting standards respectively. Analogically, the net percentage is similarly interpreted in the evaluation of changes in demand: a positive net percentage means an increase in demand, and vice versa. The term "tightened" represents the percentage difference of the banks that tightened their lending.



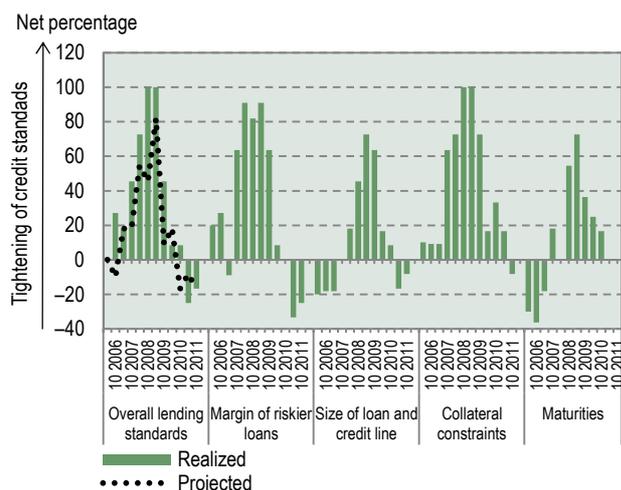
## II. Bank Lending Survey

### II.1. Summary of results

**Lending supply for enterprises.** The results of the Survey indicate that banks have eased moderately general lending conditions applied to enterprises for the second half-year in turn. Lending conditions became more favourable to both, small and medium-sized enterprises and large businesses. In the current half of the year, banks slightly eased lending conditions for short-term loans, whereas only one bank eased lending conditions for long-term loans. More favourable lending conditions were mostly driven by a reducing interest rate margin on average risk loans. A reduced interest rate on riskier loans, improved other conditions and smaller restrictions on the size of credit lines made a significant influence on more favourable crediting standards as well. The main factors that determined the easing of the bank lending policy were improving expectations of enterprises' activities, growing competition of banks and other credit institutions in the lending market, as well as relatively small financial expenses and balance-sheet restrictions of banks. However, a faster easing of lending conditions was restricted by non-declining collateral risk and weak competition because of limited possibilities of enterprises to get financing by issuing securities. In the coming half-year (to April 2012) the majority of banks are planning to further ease lending conditions to enterprises slightly (see Chart 1).

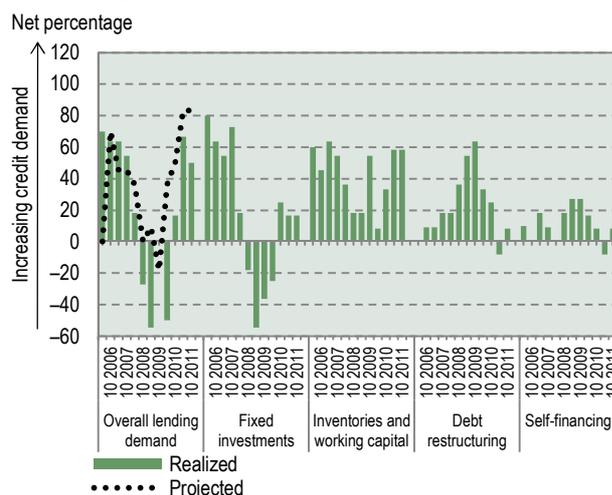
**Enterprises' borrowing demand.** The Survey respondents stated that the demand for borrowing by enterprises was increasing for the third consecutive half-year period and largely because of a long-term financing demand of enterprises. This shift was mostly determined by a growing demand to finance the acquisition of reserves, working capital and a growing demand for capital investment. Corporate borrowing demand was reduced by improving possibilities to get financing from other banks or credit institutions. In the coming six months the majority of banks expect that the demand for borrowing by enterprises will continue to increase (see Chart 2).

Chart 1. Changes in the supply of loans to enterprises



Sources: Bank Lending Surveys and Bank of Lithuania calculations.

Chart 2. Changes of enterprises' borrowing demand



Sources: Bank Lending Survey and Bank of Lithuania calculations.

Note: The net percentage in Chart 1 is defined as the difference between the percentage for "tightened considerably" and "tightened somewhat", and the percentage for "eased somewhat" and "eased considerably". The net percentage in Chart 2 is defined as the difference between the percentage for "increased considerably" and "increased somewhat", and the percentage for "decreased somewhat" and "decreased considerably".

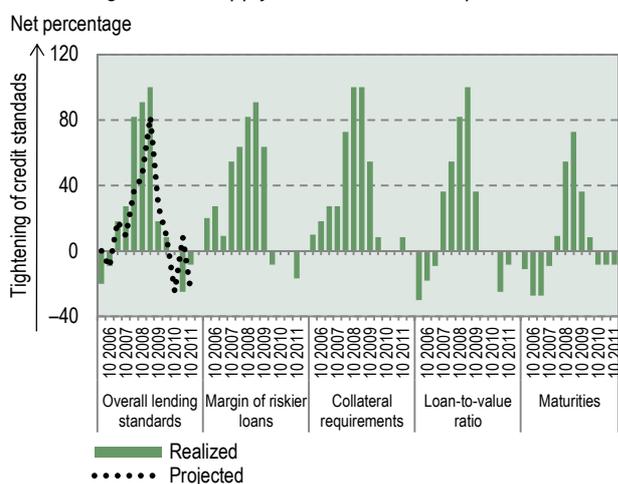
**Loan supply for house purchase.** According to the Survey results, in the current half-year the banks also eased moderately general lending conditions applied to loans for house purchase. The banks eased most of all requirements on the loan-to-value ratio, maturity of the loan and reduced interest margins on average risk and riskier loans. However, in the previous



half-year period banks slightly raised lending-related administrative charges and tightened the collateral quality assessment. The main factors behind a more favourable bank lending policy were more optimistic housing market prospects and growing competition in the lending market. In the coming six months (until April 2012) lending conditions to loans for house purchase should not change – a larger share of banks is planning to further apply current conditions to loans for house purchase, however, several banks project to tighten them somewhat (see Chart 3).

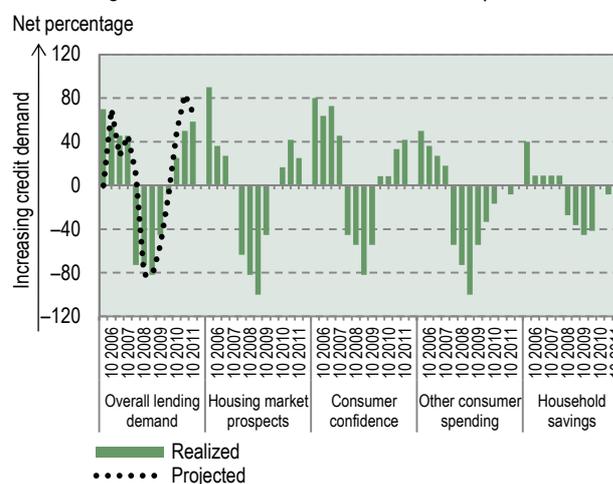
**Demand for loans for house purchase.** The Survey results show that the demand for loans for house purchase by households, similar to the demand by enterprises, increased more rapidly for the third consecutive six-month period but slightly less as expected by banks during the previous survey. A more intensive demand for loans for house purchase was mostly determined by improving prospects of the housing market and growing consumer confidence. The demand for borrowing was reduced by household loans from other banks and increasing other consumer spending. In the coming six months, the majority of banks expect that the demand for loans for house purchase by households will continue to increase (see Chart 4).

Chart 3. Changes in the supply for loans for house purchase



Sources: Bank Lending Surveys and Bank of Lithuania calculations.

Chart 4. Changes in the demand for loans for house purchase



Sources: Bank Lending Surveys and Bank of Lithuania calculations.

Note: The net percentage in Chart 3 is defined as the difference between the percentage for "tightened considerably" and "tightened somewhat", and the percentage for "eased somewhat" and "eased considerably". The net percentage in Chart 4 is defined as the difference between the percentage for "increased considerably" and "increased somewhat", and the percentage for "decreased somewhat" and "decreased considerably".

## II.2. Overview of ad hoc questions of the Bank Lending Survey

In order to obtain more comprehensive information on financing conditions applied by banks and to identify factors that may have an impact on changes of lending conditions in the future, the Bank of Lithuania presents additional questions to respondents of bank lending surveys. The Bank Lending Survey of October 2011 continued to focus on the analysis of the financial situation of enterprises in key economic sectors and of households. In addition, some additional questions were asked to assess the current and projected situation in the domestic real estate market and to present projections for loan portfolio developments.

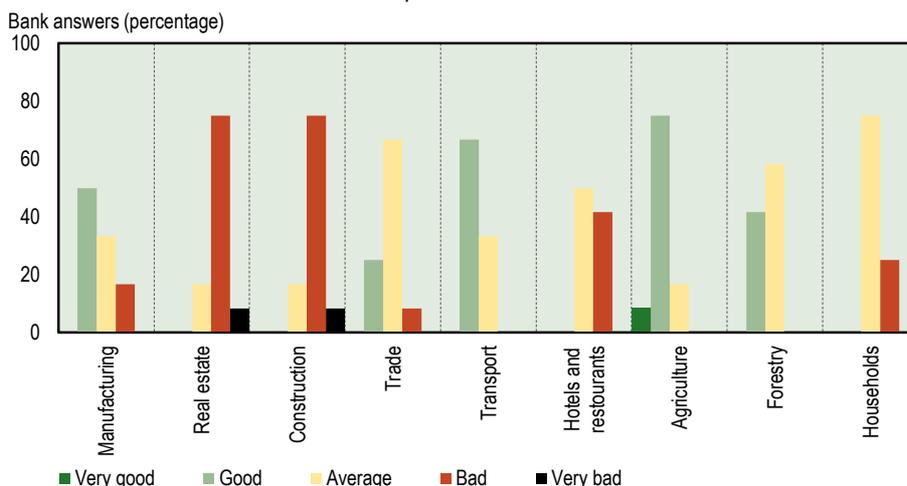
### Assessment and Dynamics of the Financial Situation of Enterprises and Households

The surveyed banks were requested to assess the financial situation of enterprises in key economic sectors and households, and its dynamics. The following major types of economic activity were selected for the survey: industry, real estate, construction, trade, transport, hotels and restaurants, agriculture and forestry, and households.



**Financial situation.** The surveyed banks assessed the financial situation of enterprises in key economic sectors and of households as slightly better than in the previous survey. Similar to the previous survey, the best assessment of all sectors was given to agriculture and forestry. The assessment of the situation in the real estate and construction, hotels and restaurants sectors was the most cautious (see Chart 5). It should be noted that in this survey, compared to the previous one, the financial situation in manufacturing, trade and transport enterprises was assessed more favourably. Moreover, currently a favourable assessment is given to the transport sector, although during the peak of the downturn it was assessed very badly.

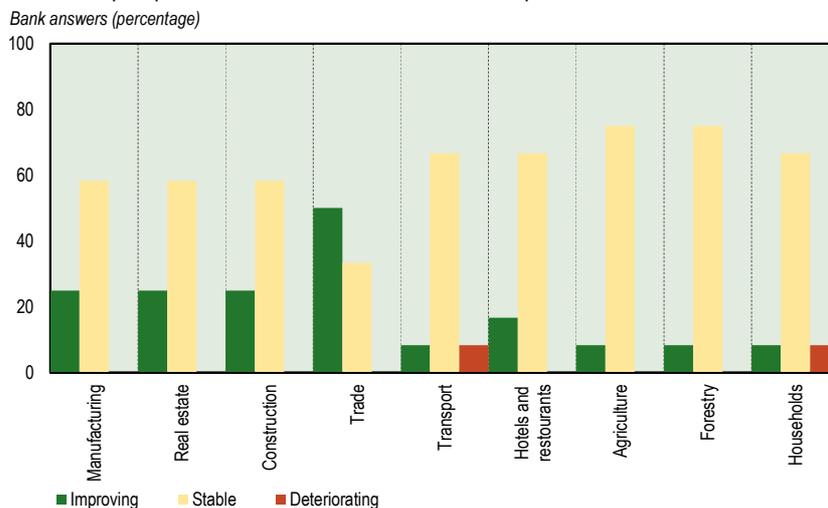
Chart 5. Assessment of the financial situation of enterprises in various economic sectors and households



Source: Bank Lending Survey, October 2011.

**Prospects of the financial situation.** In the course of this survey the banks forecasted that the financial situation of enterprises in all key economic sectors would improve or remain unchanged in the coming six months. Several banks had a different opinion only regarding the perspective of the financial situation in the transport sector and households (there were indications that the financial situation of these sectors would either improve or deteriorate). It should be observed that the future prospects of trade enterprises and enterprises of real estate, construction and manufacturing which currently are in the worst situation are assessed most favourably (see Chart 6). Such an optimistic assessment of the future of problem sectors has been observed for the second half-year in turn.

Chart 6. Assessment of the prospects of the financial situation of enterprises and households



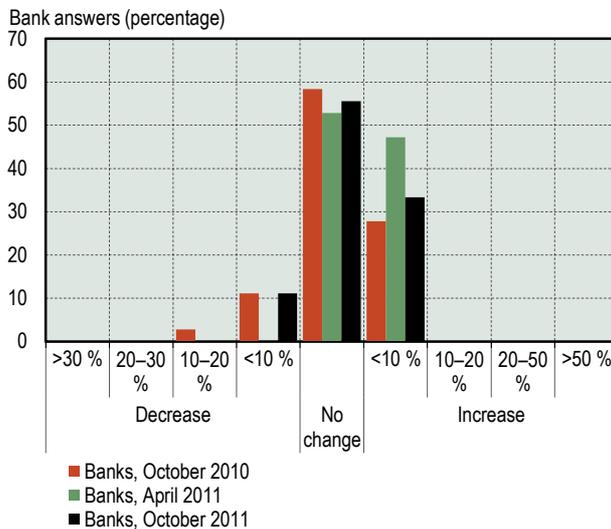
Source: Bank Lending Survey, October 2011.



**Prospects of the Domestic Real Estate Market**

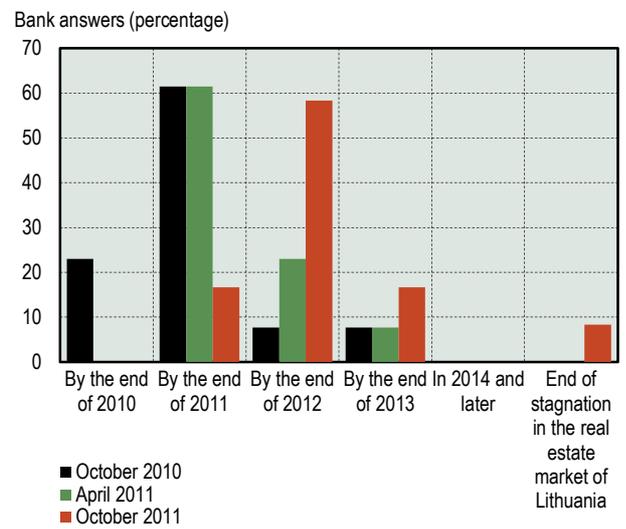
**Expectations of real estate price changes.** Slightly more than a half of the banks that participated in the survey (56%) expect that in the coming 12 months real estate prices will not change significantly, although not a small part of the banks (33%) indicated that the price will increase by up to 10 per cent (see Chart 7). Compared to the results of the Survey conducted in April 2011, the banks assess real estate market prospects a bit more pessimistically. More than a half of all banks (58%) are of the opinion that stagnation in the Lithuanian real estate market should cease by the end of 2012. Compared to the results of the previous survey, the share of respondents expecting the end of the stagnation in 2012 or at the end of 2012 but not in 2011 has increased significantly. By the way, among the respondents there appeared those who think that the stagnation in Lithuania's real estate market has already ended (see Chart 8).

Chart 7. Expectations of real estate price changes in the coming 12 months



Sources: Bank Lending Surveys conducted on behalf of the Bank of Lithuania.

Chart 8. Expectations of the stagnation duration in Lithuania's real estate market



Sources: Bank Lending Surveys conducted on behalf of the Bank of Lithuania.

**Lending Conditions and the Loan Portfolio Development**

**Granting of loans.** The majority of respondent banks indicated that in the last six months lending to real estate, construction, hotels and restaurants sectors was the most cautious one. The main reason for such caution the banks indicated uncertain prospects of the mentioned economic activities and perspectives of projects presented by enterprises. Similar to previous surveys, the banks stated that they had not applied any additional restrictions on financing other economic activities. They indicated that when granting a loan for house purchase to an average risk customer in 2011, the maximum 70-75 per cent loan-to-value ratio corresponding to the best practice of the bank risk assessment was applied. The value of this ratio should be applied to the end of 2011. When assessing the planned loan-to-value ratio in 2012 the banks did not breach the limit established in Guidelines for Responsible Lending and are planning to apply the maximum loan-to-value ratio equal to 70-80 per cent.

**Loan portfolio and deposits change in 2012 and 2013.** When summarising the Survey results, it should be noted that the total value of the portfolio of granted loans should increase by 1-5 per cent in 2012. All surveyed banks pointed out that the portfolio of loans granted by them would be larger at the end of both, 2012 and 2013 compared to the beginning of a corresponding year. According to banks, the strongest impact on the growth of the loan portfolio should be exercised by more intensive lending of enterprises. When assessing the deposit developments in 2012 and 2013, the majority of the respondents



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(92%) expect that the amount of their deposits will expand by 1-6 per cent next year. Again, this shift should be attributed to increased deposits of private enterprises and households. The banks expect that deposits of government institutions in the banking system in 2012 will have a rather significant influence on the growth of all deposits, but in 2013 this impact should subside.



### **III. Survey of Non-Financial Enterprises on Business Financing**

#### **III.1. Summary of survey results**

**Expansion and demand for borrowing.** According to the Survey results, during a half-year period business made almost no changes in the structure of financing and satisfies the majority of financial needs from internal financing sources (92.7%). In the future the business financing structure should not change much, although in the second half of 2011 non-financial enterprises will seek to attract more external financing sources, out of which leasing and services provided by credit institutions will be the most popular. During the period under review 28.2 per cent of all respondent enterprises, i.e., a bit more than in the analogous survey a half-year ago, have optimistic plans of their business and business expansion. Non-financial enterprises plan to finance one-fifth of their business expansion by borrowed funds, therefore, the demand of services provided by credit institutions should step up slightly, and borrowed funds shall be used mainly for the acquisition of equipment, machinery, materials and commodities.

**Satisfaction of requests for loans.** During a half year period the share of enterprises indicating that they did not use services provided by credit institutions, i.e., did not borrowed monetary sources for their business needs, did not change basically and made up three-quarters of the respondents that participated in the survey. Almost a half of all enterprises that in the first half of 2011 requested credit institutions to lend funds and (or) change the conditions of liabilities of existing contracts, were fully satisfied, while requests of 15.6 per cent of enterprises, i.e., by one-fourth less than in the analogous survey conducted in April, were rejected. The majority of surveyed enterprises treat smaller financing sources as an insignificant difficulty, while a substantially stronger concern they will experience in the future because of a heavier burden of taxes or increased production costs. Also, according to the surveyed non-financial enterprises, credit institutions based their rejections of requests on more objective reasons, such as a poor financial standing of an enterprise or large current liabilities.

**Changes of lending conditions.** According to non-financial enterprises that participated in the survey, in the first half of 2011, compared to the second half of 2010, new borrowing possibilities worsened and credit standards became somewhat more stringent. This was due to tighter requirements for pledged real estate, but the price of the business borrowing from credit institutions dropped.

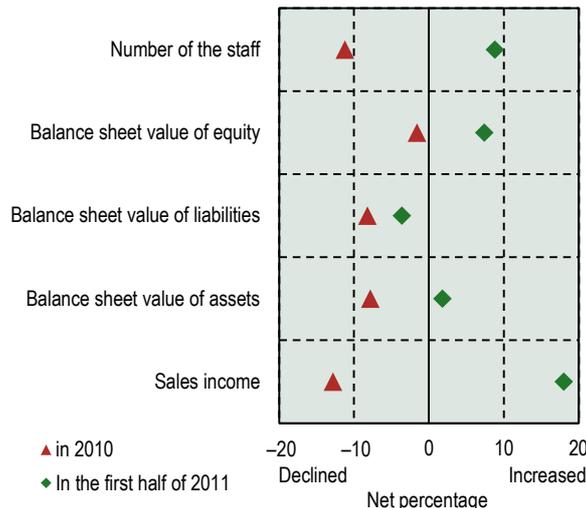
#### **III.2. Demographic characteristics and business trends of non-financial enterprises**

According to the number of employees, the largest share of the survey respondents is composed of small and medium-size (up to 250 employees) enterprises whose average business period during the survey made up 10 years. In the first half of 2011 the main financial indicators of the surveyed enterprises improved (sales income in particular), a larger number of enterprises increased the number of employees and a smaller number – reduced this number. During the period under review, the share of enterprises that earned profit increased almost by one-fourth, while better performance results were attained by enterprises of economic activities that are more oriented to exports (according to the survey data, in the first half of 2011 enterprises increased the share of sales to foreign markets from 12.4% to 14.0%). In the context of a recovering economy and improving performance indicators of non-financial enterprises, a major share of these enterprises (see Chart 10) experienced a smaller impact of difficulties in comparison to those enterprises that were strongly effected, however, a shortage of customers and a heavier tax burden persist to be an acute difficulty to the business. The smallest disturbances to the business in the first half of 2011 were caused by diminished financial sources, existing legal (administrative) requirements and a shortage of suitable staff. The surveyed enterprises expect that increase of tax burden and production costs, as well as the shortage of suitable staff will be the



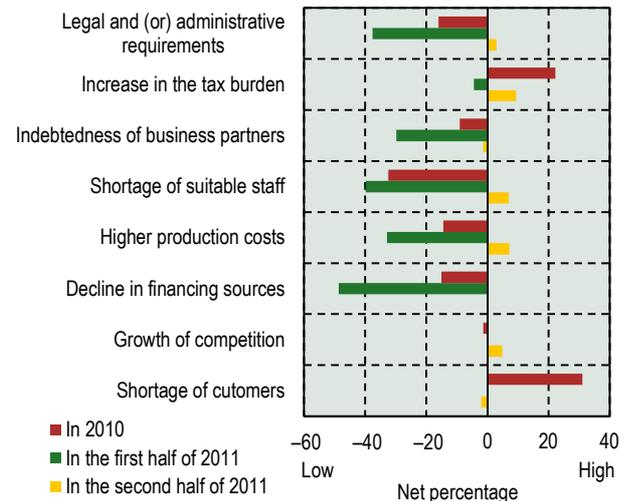
largest problems that non-financial enterprises will be confronted with in the second half of 2011. Threats raised by a shortage of customers, indebtedness of business partners or reduced financing sources to the enterprises and their financial results will decrease in the nearest future (see Chart 10).

Chart 9. Changes of the main financial indicators and the number of staff of non-financial enterprises in 2010 and the first half of 2011 compared corresponding period a year ago



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

Chart 10. Significance of difficulties faced by non-financial enterprises in 2010 and the first half of 2011 and their changes in the second half of 2011



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

In the first half of 2011, year-on-year, increased sales income was registered by a larger share of surveyed enterprises compared to those that indicated a reduction of their income. During the mentioned period the smallest increase of sales income was registered in trade, while the largest rise – in industry. This may be associated with a more buoyant recovery of demand in the external market than that in the domestic market, because on the basis of the survey results 18.9 per cent of industrial enterprises, i.e., the largest share compared to other economic activities, generate sales income from exports. Enterprises of different economic activities increased the number of employees differently: trade enterprises increased the number of employees least of all, while the largest increase was registered in construction enterprises. According to the survey results, the largest share of enterprise that earned profit was in the trade activity, while the largest share of the enterprises that incurred losses was in the activity of construction.

In the environment of a recovering economy and stronger financial position of business, the surveyed enterprises of all economic activities assessed difficulties listed in Table 2, their importance to business in the first half of 2011 as small. However difficulties with which enterprises of individual activities were confronted in the first half of 2011 and which will have a weighty impact on their business and financial results in the second half of 2011 did not coincide.



Table 2. Importance of difficulties with which the surveyed non-financial enterprises were confronted in their business in the first half of 2011 and an expected change of these difficulties in the second half of 2011.

(in brackets there is shown an expected change in the second half of 2011)

Difficulties	Industry	Construction	Trade	Services	Total
Shortage of customers	-20,0 (-11,6)	-7,0 (1,9)	3,8 (-3,9)	0,0 (-0,7)	-1,4 (-2,0)
Higher competition	-40,0 (0,0)	-27,9 (4,9)	-16,0 (3,1)	-25,7 (6,6)	-24,4 (4,8)
Decline in financial sources	-28,9 (2,4)	-31,0 (0,0)	-51,5 (0,0)	-54,9 (-0,4)	-48,6 (0,0)
Higher production costs	-6,7 (15,6)	-30,2 (0,0)	-40,2 (9,2)	-34,4 (6,2)	-32,8 (7,2)
Shortage of suitable staff	-53,3 (6,8)	-11,6 (9,8)	-51,1 (0,0)	-37,2 (10,2)	-39,8 (7,0)
Indebtedness of business partners	-25,0 (-4,5)	-9,3 (-9,5)	-28,0 (5,4)	-35,0 (-2,9)	-29,8 (-1,4)
Increase in the tax burden	-4,5 (9,5)	14,0 (7,5)	-15,9 (8,5)	-1,8 (10,7)	-4,4 (9,4)
Legal and/or administrative requirements	-43,2 (6,8)	-55,8 (-5,1)	-41,4 (0,8)	-34,1 (4,9)	-37,6 (3,0)

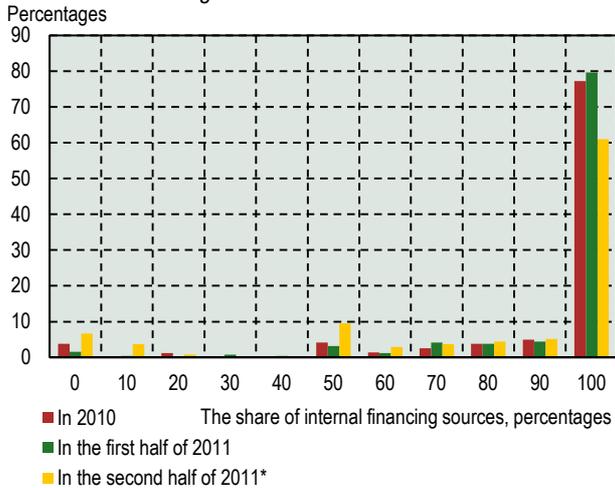
Note: figures in the table show net percentage (expressed in percentage points) of the share of enterprises that indicated that the importance of a difficulty was large (would increase in the future) and enterprises which indicated that the importance of a difficulty was small (would reduce in the future). A positive figure shows that a larger share of enterprises assesses the importance of a difficulty as large (the importance will increase in the future) and a negative figure shows that a larger share of enterprises assesses the importance of a difficulty as small (in the future the importance will rise).

### III.3. Business financing of non-financial enterprises and its sources

To compare with the results of the Survey of Non-Financial Enterprises on Business Financing, April 2011, the share of enterprises satisfying all business financing needs solely from internal financing sources slightly expanded and made up almost four-fifths of the surveyed respondents. The share of the surveyed non-financial enterprises that satisfied their business needs in the first half of 2011 only from external financing sources accounted for 1.6 per cent, i.e., less by a half vis-à-vis an analogous survey in April. Based on the survey results, 7.3 per cent of business financing needs in the first half of 2011 were satisfied by using external financing sources with financial leasing, operating lease, factoring (used by 20.6% of the surveyed enterprises), bank loans (18.0%), overdraft and credit lines (13.0%) being the most popular among external financing sources. In the future (in the second half of 2011) the share of enterprises intending to change business financing sources will expand compared to the results of the analogous survey conducted six month ago, but will remain relatively small (38 out of 500 surveyed enterprises). Enterprises will increase the utilisation of internal financing sources most of all and will expand the use of lending services provided by credit institutions (bank loans, financial leasing, operating lease, factoring) and will start to utilize the European Union funds. 28.2 per cent of the surveyed enterprises, i.e., slightly more than during the analogous survey six months ago, have optimistic business plans and envisaged the expansion of their business, while non-financial enterprises will seek to finance one-fifth of the mentioned business expansion by borrowed funds.

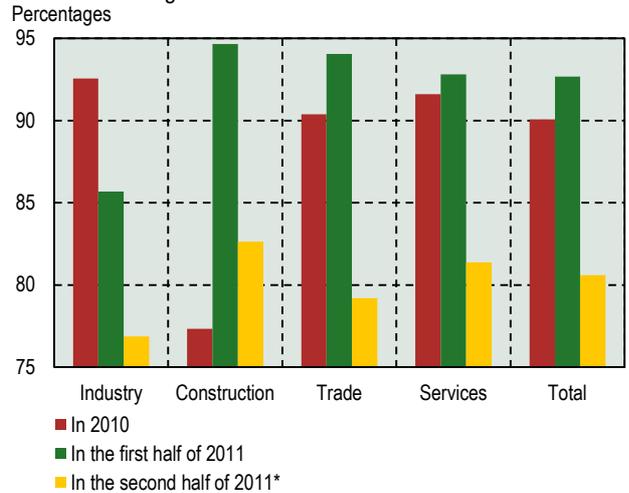


Chart 11. Breakdown of enterprises by the origin of satisfaction of business financing needs



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

Chart 12. Share of business financing needs satisfied from 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.

According to the survey results, in the first half of 2011 the largest share of business financing needs satisfied from external financing sources was in industrial enterprises (14.3%), while enterprises of other economic activities satisfied over 90 per cent of business financing needs by using internal sources. The most popular external business financing sources among the surveyed enterprises were financial leasing, operating lease, factoring, bank loans, while industrial and trade enterprises stood out from enterprises of other economic activities by a relatively intense utilisation of the European Union funds. In the second half of 2011 industrial enterprises that will start borrowing from banks, leasing companies, utilise the European Union funds, will tend to change their financing sources most of all. The most optimistic assessment of future plans was given by the surveyed construction enterprises, whereas trade enterprises' plan business expansion least of all. To compare with the analogous survey results a half year ago, industrial and trade enterprises were more cautious in assessing their business expansion, while construction and services enterprises were more optimistic. Enterprises of the industrial economic activity will finance almost one-fourth of the business expansion planned in the second half of 2011 by borrowed funds, and enterprises of other economic activities will finance about one-fifth of the business expansion by borrowed funds.

### III.4. Assessment of borrowing from credit institutions

The share of enterprises indicating that they did not cooperate with credit institutions, did not intend to use and did not use services provided by them almost did not change in the first half of 2011, compared to 2010 and made up 71.4 per cent (71.2% in 2010). The most popular credit institutions' services used by the surveyed enterprises in the first six months of 2011 were short-term and long-term investment loans and financial leasing. At the end of the period under review two-thirds of liabilities to credit institutions were secured by collateral or guarantees, and for the last assumed financial liabilities non-financial enterprises paid the annual average interest rates of 5.7 per cent, i.e., 0.5 percentage point less than at the end of 2010.

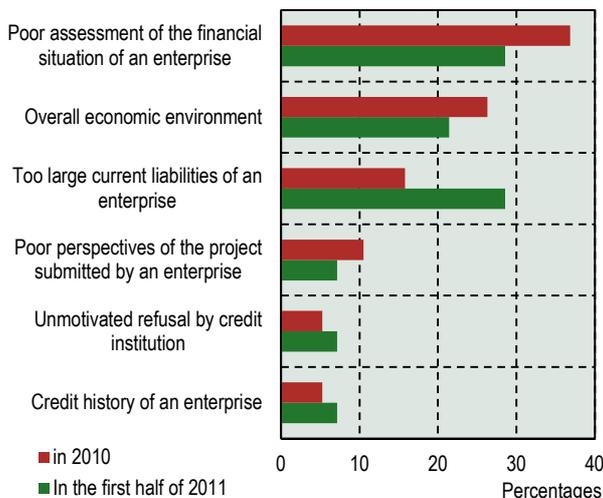
In the first half of 2011, compared to the second half of 2010, the demand for borrowing of almost two-thirds of non-financial enterprises that had financial liabilities to credit institutions did not change. On the one hand, borrowing from credit institutions becomes more attractive to the business: during the period under review a smaller number of non-financial enterprises had no need to borrow or reduced it, if compared to 2010. On the other hand, only a small share of enterprises (less than one-fourth) having financial liabilities requested credit institutions to lend funds and/or change the terms of current



agreements related to liabilities. Requests of 14 surveyed non-financial enterprises that requested credit institutions to lend funds and/or change the terms of current agreements related to liabilities were satisfied and the whole indicated amount lent, and requests of 5 enterprises were rejected. To compare with the analogous survey results six months ago, the share of rejected requests to lend funds and/or change the terms of current agreements related to liabilities reduced. The reasons why requests were not satisfied in full or rejected basically did not change (a poor assessment of the financial standing of an enterprise, too large existing liabilities of an enterprise, overall economic environment). The enterprises that addressed credit institutions to be lent funds and (or) terms of current agreements related to liabilities changed, indicated that in the first six months of 2011, compared to the second half of 2010, new lending possibilities worsened and standards of granted loans became more stringent. It became more difficult to borrow funds or change the terms of current agreements related to liabilities due to increased requirements for pledged assets, while lower interest rates made borrowing more attractive.

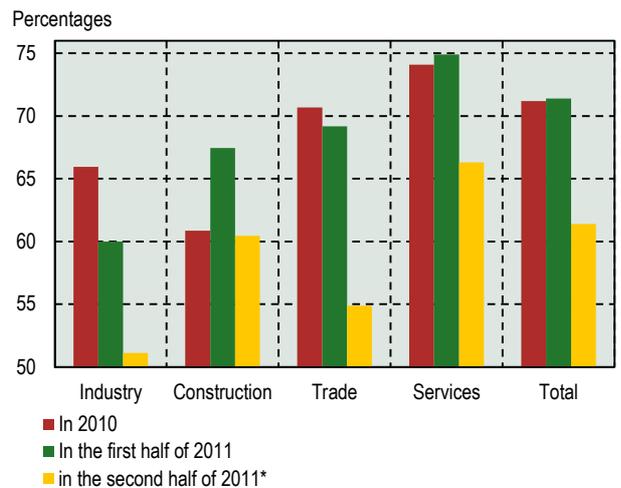
In the second half of 2011 more non-financial enterprise will need to borrow from credit institutions. This was indicated by 38.6 per cent of the surveyed enterprises, i.e., 6.0 percentage points more than during the analogous survey conducted six months ago. Non-financial enterprises will use borrowed funds mainly for repairs or acquisition of equipment, machinery, vehicles, as well as for the acquisition of commodities or materials.

*Chart 13. Reasons for unsatisfied or incompletely satisfied requests for borrowing and (or) changing the terms of the current agreements related to liabilities 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 14. Use of credit institution services by non-financial enterprises*



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

In the first half of 2011 industrial and trade enterprises were the most active in cooperating with credit institutions and borrowing financial sources for their needs, while construction and services enterprises were the most passive in this field. The most popular service provided by credit institutions among industrial enterprises were long-term investment loans, while other surveyed enterprises of economic activities used financial leasing services most often. The largest share of enterprise liabilities to credit institutions, compared to total balance sheet liabilities, i.e., financial leverage, at the end of the first half of 2011 was in industrial enterprises and the smallest – in trade. Industrial and services enterprises borrowed at a bit more expensive interest rate, whereas construction and trade enterprises borrowed at a cheaper rate. In the first half of 2011, compared to 2010, the average interest rate decreased for the surveyed enterprises of all economic activities, excluding construction enterprises.



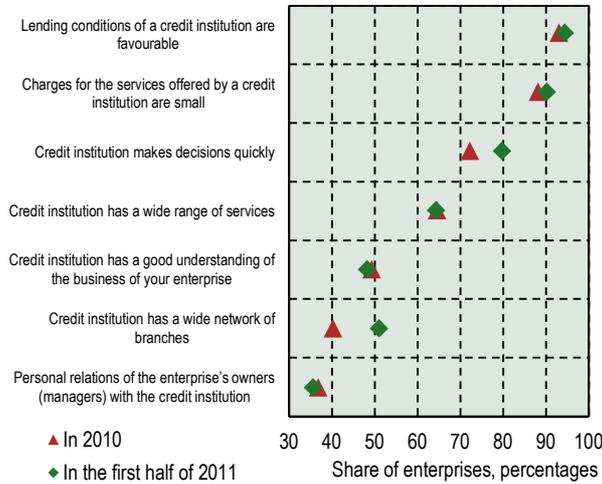
To compare with the results of an analogous survey conducted six months ago, the borrowing demand of non-financial enterprises increased. In the first half of 2011, compared to the second half of 2010, one-fourth of enterprises that cooperated with credit institutions indicated that their demand for borrowing increased (to compare with the results of the analogous survey conducted six months ago, the share of such enterprises amounted to one-fifth), while one-fourth of enterprise had no demand to borrow or it was smaller (respectively, the share of such enterprises in the previous survey made up one-third). The largest jump in the demand for borrowing was registered in enterprises of construction and industry, while in trade and services enterprises this demand changed insignificantly. The most active in requesting credit institutions to borrow and (or) change the terms of current agreements related to liabilities were industrial enterprises (the most passive – services enterprises) whose requests were satisfied most of all (the largest majority of incompletely satisfied or rejected requests were in trade enterprises, and the most common reason behind such an action was a poor assessment of the financial situation of an enterprise). Trade enterprises assessed new borrowing possibilities and standards of granted loans the most optimistically, whereas industrial and services enterprises treated these possibilities as worsened.

### **III.5. Relations between enterprises and creditors**

Similar to the analogous survey a half year ago, non-financial enterprises seek to maintain long-term relations with creditors. Factors determining a credit institution's choice remain to be the same as were during the analogous survey conducted a half year ago: the most important factor for enterprises were favourable lending conditions, small charges for services and a quick decision-making process, whereas personal relations of enterprise owners (managers) with the credit institution was the least important factor. According to the surveyed non-financial enterprises, the most important factor for the credit institution in making a decision to lend is the capability of an enterprise to cover the debt, the current level of indebtedness of an enterprise and the credit history – the latter factor was not stressed during the previous analogous survey. The least important factor for enterprises was the market share they held.

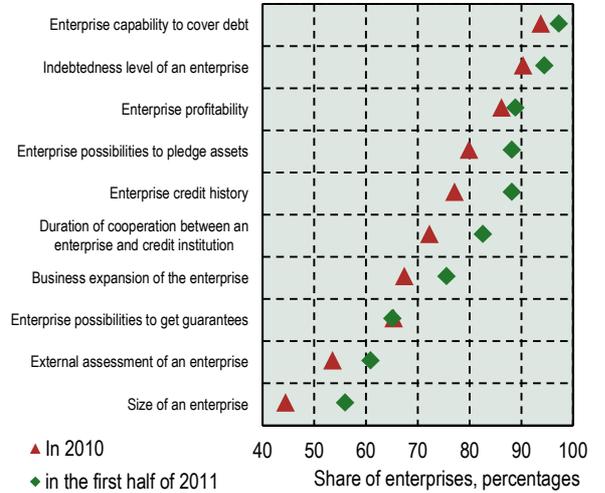


Chart 15. The share of enterprises to which the presented factors are important and very important in selecting a credit institution



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

Chart 16. The share of enterprises according to which the factors presented to credit institutions are important and very important in making a lending decision



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

Factors on the basis of which non-financial enterprises make decisions on cooperation with credit institutions and factors which according to individual enterprises of economic activities are important for the credit institution in making a lending decision are basically the same among enterprises of different economic activities.