



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

**April 2012**

### **SUMMARY OF SURVEY RESULTS**

- During the last 6 months, banks slightly tightened general lending conditions applied to enterprises and significantly tightened lending conditions for housing loans. The largest impact on the tightening of lending conditions was made by higher requirements on collateral and contractual obligations, a more conservative assessment of loan maturities and higher non-interest charges.
- The main reasons that determined a stricter crediting policy applied by banks were bank financing expenses, balance-sheet constraints and, for the first time in the history of the bank lending survey, other factors.
- According to non-financial enterprises, credit standards applied by credit institutions in the second half of 2011, were tighter, compared to the first half of 2011, which was determined by higher requirements on collateral, however, the possibilities to obtain a new loan remained unchanged, although they were deteriorating 6 months ago.
- In the second half of 2011, compared to the first half of the year, the share of enterprises, whose applications concerning borrowing and/or changing the contractual conditions for the existing obligations were fully satisfied, increased, whereas the share of those enterprises, whose applications were rejected, declined.
- Same as in the previous 6-month period, the non-financial enterprises finance the largest share of their business expenses by internal financial resources (although this share declined slightly) and plan to do it in the future. A larger number of non-financial enterprises plan business expansion in the future, however, they will use for this purpose less financial resources attracted from outside.
- In the coming 6 months (until October 2012), the majority of banks plan to ease lending conditions for enterprises slightly, whereas lending conditions for housing loans should remain unchanged. Despite tighter lending conditions, banks project that the demand for loans by both enterprises and households will increase, whereas the total value of the granted loans portfolio<sup>1</sup> should grow by 2–6 per cent in 2012.
- Bank lending policy changes are not an essential factor limiting the operations of enterprises. Businesses assessed the reduction of financing sources as a small difficulty in the second half of 2011 and do not expect the importance of this difficulty to change significantly in the first half of 2012. In the coming 6 months, the operations of enterprises will be mostly constrained by larger tax burden, higher production costs and stronger competition, which is a factor that was not mentioned earlier.
- Compared to the results of the survey of October 2011, the assessment of the real estate market prospects worsened: most banks are of the opinion that the stagnation in Lithuania's real estate market should end by the end of 2013. Besides, the assessment of real estate price prospects in the coming 12 months by banks was very similar – almost 70 per cent of respondents expect that real estate prices will not change significantly.
- According to the surveyed commercial banks and non-financial enterprises, the bankruptcy of AB bankas SNORAS, which shook Lithuania's financial system at the end of 2011, did not have a significant impact. This event had a small impact on three-fourths of financial enterprises and only to 1 per cent of business representatives AB bankas SNORAS bankruptcy had a large impact in the second half of 2011 and will have in the first half of 2012. According to the assessment of the surveyed commercial banks, the majority of respondents did not observe a significant impact on asset and capital adequacy indicators; a more significant impact was observed on the redistribution of the deposit portfolio among banks and liquidity situation.

---

<sup>1</sup> Loan portfolio before loan impairment.



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

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 of 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<sup>2</sup> and changes in lending conditions. The surveys of banks and non-financial enterprises were conducted in February–March 2012. Respondents were 7 commercial banks and 4 foreign bank branches (hereinafter – “banks”) and 500 non-financial enterprises operating in Lithuania (hereinafter – “enterprises”).

The holders of management positions in banks were requested to indicate changes of bank lending conditions to households and non-financial enterprises over the period from end-October 2011 to end-March 2012. In their responses regarding the likely situation in the future, the respondents were requested to assess potential changes of lending conditions during the coming six months (April – September 2012). This Bank Lending Survey presents a summarised opinion of respondents, which does not necessarily reflect official views and assessments of banks, the Bank of Lithuania or its staff members. When summarising the opinions 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 economic activity and quotas of the location of registration (taking into consideration the value added created) were interviewed by telephone (CATI).

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

District	Industry	Construction	Trade	Services	Total
Alytus	2	1	5	11	19
Kaunas	10	8	30	55	103
Klaipėda	6	5	14	35	60
Marijampolė	2	1	5	10	18
Panevėžys	4	2	8	22	36
Šiauliai	4	2	10	23	39
Tauragė	1	1	5	6	13
Telšiai	2	2	5	9	18
Utena	2	1	4	9	16
Vilnius	13	14	46	105	178
Total	46	37	132	285	500

The Survey questions were grouped into four groups: Group 1 – demographic aspects and development of the main financial indicators of a non-financial enterprise, 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 the possibility of a statistical discrepancy, which is always possible when performing selective quantitative research.

<sup>2</sup> Credit institutions in this survey consist of commercial banks, credit unions, leasing companies, other investment undertakings, from which non-financial enterprises borrow monetary resources, which should be later repaid, for their business needs.



*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 differential means that the majority of banks tightened lending conditions and negative differential (with a minus sign) means that they eased lending conditions. Analogously, the net percentage is interpreted by estimating developments in demand: 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 conditions and the ones that eased them.



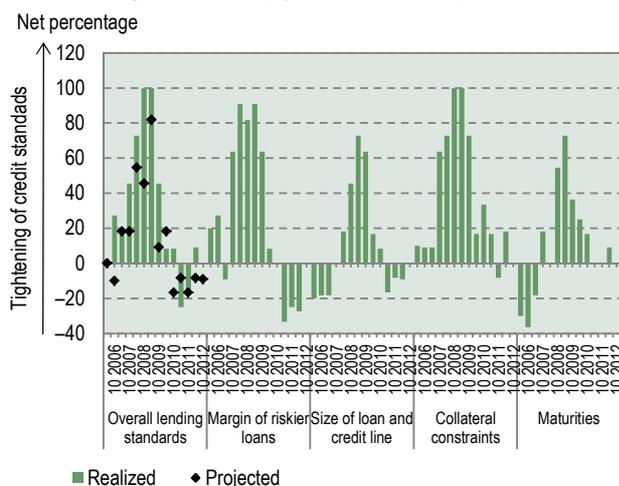
## II. Bank Lending Survey

### II. 1. Summary of results of the Bank Lending Survey

**Supply of loans to enterprises.** The Survey results show that, despite the easing of general lending conditions applied to enterprises for two consecutive six-month periods, in the last six months banks slightly tightened general lending conditions applied to enterprises. Lending conditions were tightened both to small and medium-sized enterprises and to large enterprises. In the recent six month, banks eased slightly only the conditions for granting short-term loans, whereas the conditions for granting long-term loans were tightened in the same way as general lending conditions. The tightening of lending conditions was mostly determined by higher requirements on collateral and contractual obligations. Moreover, significant influence on the tightening of lending conditions was made by more conservative assessments of loan maturities and higher non-interest bearing charges. On the other hand, the reduction of the margins on average risk and riskier loans had an opposite effect and partly offset the tightening of lending conditions. The main factors that determined the bank crediting policy tightening were the attempt of banks to improve the indicators of capital positions, poorer expectations concerning enterprise activity prospects, increasing collateral requirements and limited possibilities of alternative financing of enterprises by issuing securities. As a matter of fact, a more rapid tightening of lending conditions was restricted by the competition of other banks and non-bank institutions. In the coming six months (until October 2012), the majority of banks plan to ease lending conditions for enterprises slightly (see Chart 1).

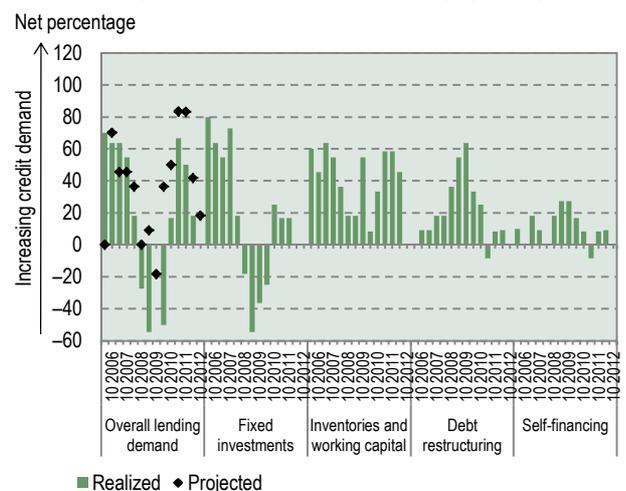
**Demand for borrowing by enterprises.** The Survey respondents stated that the demand for borrowing by enterprises increased for the fourth consecutive six-month period, however, contrary to the results of the previous survey, the demand mostly grew due to the rising need of short-term financing of enterprises. As usual, this development was mostly affected by the increasing need to finance the current and reserve capital. The demand for loans and enterprise credit lines was reduced by the improvement of possibilities to obtain financing from other banks. 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 in the demand for borrowing by enterprises



Sources: Bank Lending Survey and Bank of Lithuania calculations.

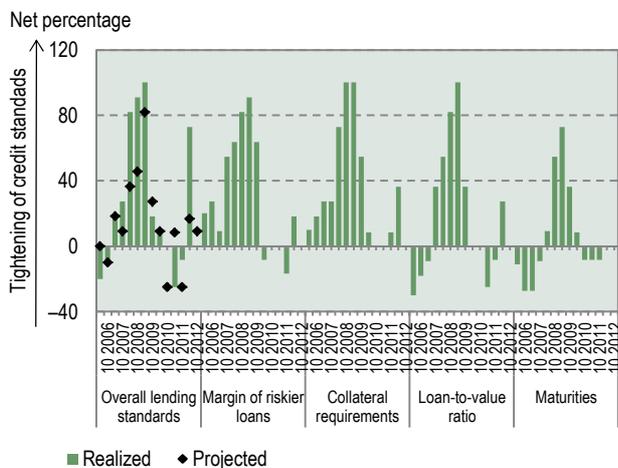
Note: The net percentage in Chart 1 is defined as the difference between the percentage for "tightened considerably" and "tightened somewhat", and the percentage for "eased somewhat" and "eased considerably". The net percentage in Chart 2 is defined as the difference between the percentage for "increased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



**Supply of loans for house purchase.** According to the Survey results, in the current half of the year banks significantly tightened general lending conditions applied to loans for house purchase. Banks tightened almost all conditions applied to loans for house purchase: interest margins on average risk and riskier loans, requirements on loan maturity and loan-to-value ratio, non-interest bearing charges. It should be noted that, for the first time in the history of lending surveys, other factors also made a significant impact on the tightening of lending conditions. The main factors that determined the tighter bank lending policy were bank financing expenses and balance-sheet constraints and other factors. Over the next six-month period (until October 2012), the lending conditions applied to loans for house purchase should not change – the majority of banks plan to continue applying the existing conditions of loans for house purchase, however, several banks plan to tighten them slightly (see Chart 3).

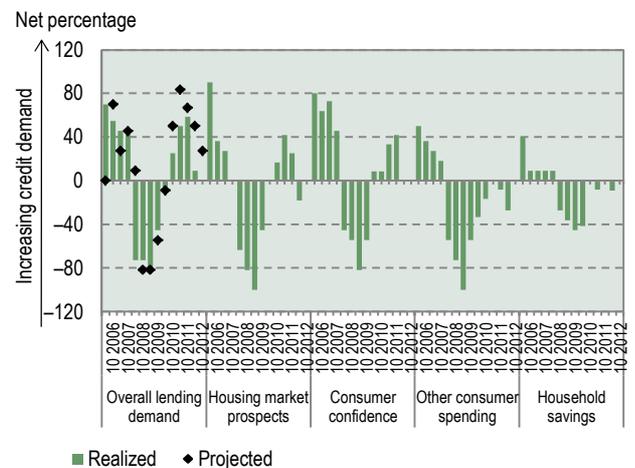
**Demand for loans for house purchase.** The survey results show that, despite the tightening of lending conditions, the demand for loans for house purchase by households, same as the demand by enterprises, increased for the fourth consecutive six-month period, albeit slightly less than expected by banks during the previous survey. The demand for loans for house purchase was partly reduced by the rising expenses unrelated to housing, deterioration of housing market prospects and increased financing of household needs by savings or other alternative financing sources. On the other hand, banks indicated that the demand for consumer and other loans increased. This development was determined by consumer confidence and the need for acquiring durable goods. In the coming six months, the majority of banks expect that the demand for loans by households will continue to increase, however, the stronger need will be for consumer and other loans (see Chart 4).

Chart 3. Changes in the supply of 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

During each Bank Lending Survey, the Bank of Lithuania makes a list of additional questions. These questions are provided to obtain more comprehensive information on financing conditions applied by banks and to identify the factors that may have an impact on the changes of lending conditions in the future. The Bank Lending Survey of April 2012 continued to focus on the analysis of the financial situation of enterprises in the key sectors of the domestic economy and households. In addition,



some additional questions were asked to assess the situation in the domestic real estate market, to present the forecasts of the loan portfolio developments and to evaluate the impact on bank system of the AB bankas SNORAS.

### ***Influence of AB bankas SNORAS bankruptcy on the domestic banking sector***

In order to obtain information on the influence that AB bankas SNORAS nationalisation and the institution of bankruptcy proceedings against it had on stability and situation of the domestic banking sector, an additional question was included in the survey concerning the impact of this event on the main financial indicators of banks.

**Assets.** The majority of respondents (73%) indicated that they did not observe a significant influence on asset indicators, whereas one bank indicated that its assets increased considerably and one bank indicated that its assets decreased considerably. Among indicated asset items, a more significant impact was observed only on the value of securities held by banks (27% of respondents indicated that it declined or declined considerably, while others did not experience any changes).

**Liabilities.** Although the aggregate impact on bank liabilities after AB bankas SNORAS bankruptcy was insignificant, however, contrary to asset composition, here the redistribution among banks was larger. When replying to the question on the developments of their portfolios of enterprise, household and other deposits, rare respondent selected a neutral answer (remained almost unchanged).

**Other indicators.** It should be noted that the income of a part of respondents (27%) rose after AB bankas SNORAS bankruptcy, however expenses increased as well (18% of respondents indicated that their expenses grew). Thus, the net operating result or profitability remained basically unchanged. The capital adequacy ratio remained unchanged in almost all banks – only 18% of respondents indicated that their capital adequacy contracted. On the other hand, the assessment of the liquidity situation among banks was different – 18 per cent of respondents stated that liquidity contracted significantly, whereas 27 per cent of them observed reverse trends.

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

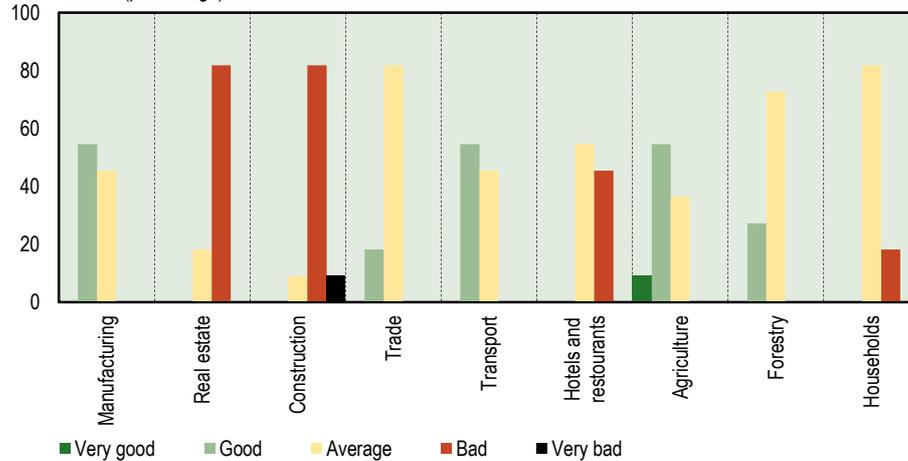
The banks that participated in the survey were requested to assess the financial situation of enterprises in the key sectors of the domestic economy and households and its dynamics. The following major types of economic activity were selected for the survey: industry, real estate, construction, trade,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

**Financial situation.** The assessment of the financial situation of households and enterprises in the key economic activities by banks participating in the survey was slightly better than during the previous survey. The best assessment of all economic activities was given to agriculture and manufacturing industry. Assessment of the situation in the real estate and construction sector, as well as hotels and restaurants sector, was the most cautious one (see Chart 5). It should be noted that during this survey the financial situation of almost all key economic activities and households was assessed more favourably, compared to the previous survey.



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

Bank answers (percentage)

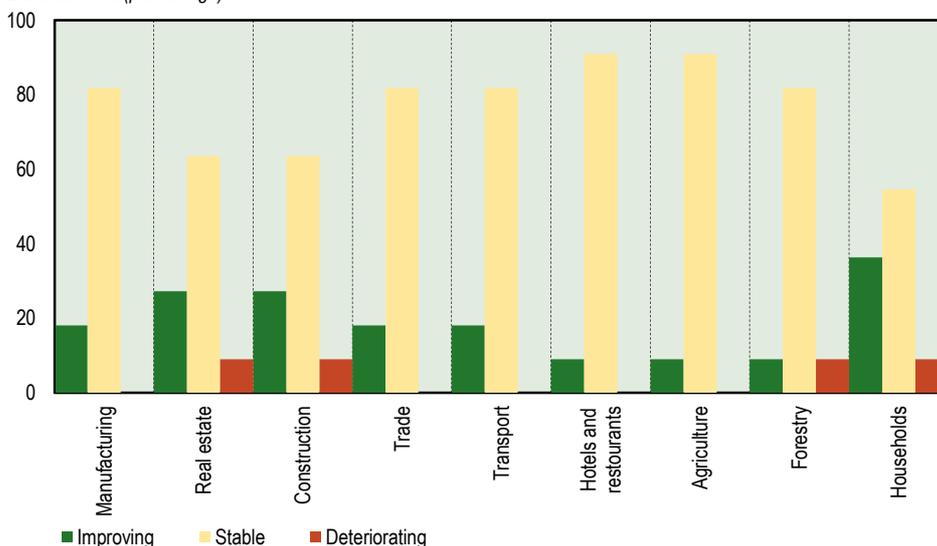


Source: Bank Lending Survey, April 2012.

**Prospects of the Financial Situation.** In the course of this survey, banks forecasted that the financial situation of enterprises in almost all key economic activities will improve or remain unchanged in the coming six months. The assessments by the respondents concerning the situation in the real estate, construction and forestry sectors diverged. Despite divergent opinions of respondents, the most favourable assessment was given to the prospects of the financial situation of households (see Chart 6).

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

Bank answers (percentage)



Source: Bank Lending Survey, April 2012.

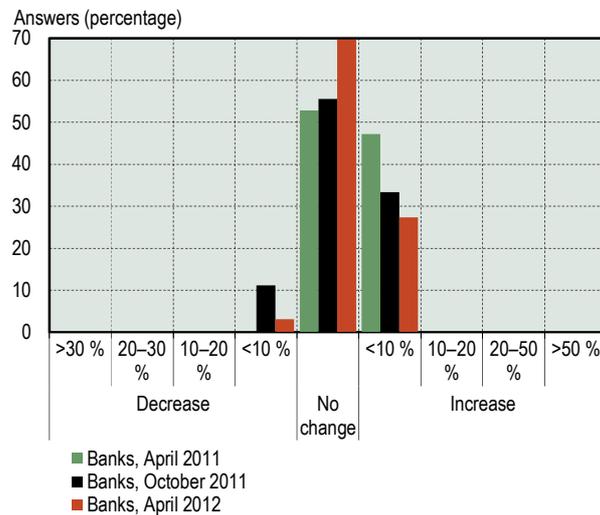
### **Prospects of the Domestic Real Estate Market**

**Expectations of real estate price changes.** The assessment of the real estate price development prospects in the coming 12 months by banks was very similar – almost 70 per cent of the banks participating in the survey projected that real estate prices will not change significantly in the coming 12 months, although a considerable share of banks (27%) indicated that the price may increase (see Chart 7). Compared to the results of the survey of October 2011, the assessment of the real estate



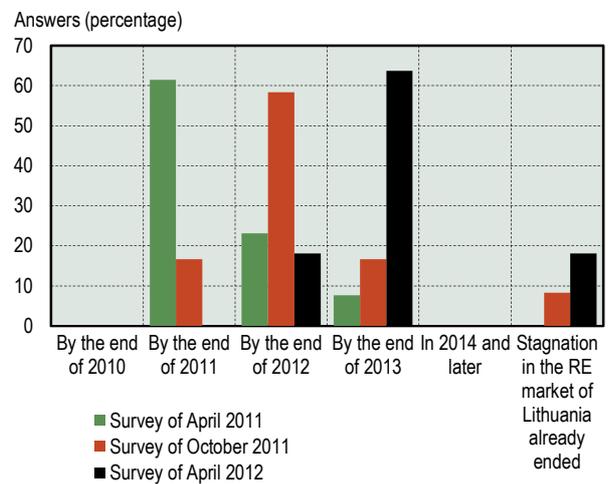
market activity prospects by banks worsened. More than a half of banks (58%) are of the opinion that the stagnation in Lithuania's real estate market should end by the end of 2013 (see Chart 8).

*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 the real estate market of Lithuania*



Sources: Bank lending surveys conducted on behalf of the Bank of Lithuania. Note: RE - real estate.

### ***Lending Conditions and the Loan Portfolio Development***

**Granting of loans.** The majority of respondent banks indicated that in the last six months their lending to hotels and restaurants, real estate and construction sectors was the most cautious one. As the main reason for such caution, the majority of banks indicated the uncertainty surrounding the outlook of the said economic activities and viability of the projects presented by enterprises. Like in the previous surveys, the banks stated that they did not apply any additional restrictions on financing of other economic activities. They indicated that, when granting a loan for house purchase to an average risk customer in 2011, the maximum loan-to-value ratio applied was from 70 to 80 per cent, which is in compliance with the good practice of bank risk assessment. When assessing the loan-to-value ratio planned to be applied in 2012, banks planned to apply the maximum loan-to-value ratio of 70 to 80 per cent.

**Change in the loan portfolio and deposits in 2012 and 2013.** When summarising the survey results, it should be noted that the total value of the loan portfolio should increase by 2–6 per cent in 2012. All surveyed banks indicated that the size of the portfolio of loans granted by them will be larger both at the end of 2012 and at the end of 2013 than in the beginning of the respective year. According to banks, more active crediting of enterprises and the public sector should have the largest impact on the portfolio growth. When assessing the changes of deposits in 2012 and 2013, all respondents indicated that they expect deposit portfolio to grow. After assessing the changes of the current portfolio of banks, the total amount of deposits should increase by 1–5 per cent in 2012. This should mainly be driven by the growth of deposits of households and private enterprises.



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

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

**Expansion and demand for borrowing.** According to the survey data, in the second half of 2011 businesses left the financing structure almost unchanged and satisfied the majority of their financing needs from internal financing sources (91.8%). The most significant impact on such choice was made by sufficient internal financing resources or the absence of the need to borrow and excessive expenses related to external financing sources. Business financing structure should not change significantly in the future, although in the first half of 2012 non-financial enterprises will seek to attract more external financing sources, among which the most popular will be loans granted by credit institutions, account overdrafts or credit lines and leasing. During the said period, 31.3 per cent of the surveyed enterprises plan their activity optimistically and intend to expand their business, which is slightly more than during the analogous survey conducted six months ago. Non-financial enterprises intend to finance one-tenth of their business expansion by using borrowed funds (two times less than during the analogous survey conducted six months ago), these borrowed funds will be used for the acquisition of equipment, machinery, materials and commodities.

**Satisfaction of loan applications.** In the second half of 2011, the share of enterprises, which indicated that they did not use the services provided by credit institutions, i.e. did not borrow monetary resources for their operating needs, declined slightly and made up two-thirds of respondents participating in the survey. The applications of more than a half of all enterprises, which applied in the second half of 2011 to credit institutions for borrowing funds and/or changing the contractual terms and conditions of their existing obligations, were satisfied fully, whereas less than one-tenth of enterprises applications were rejected (compared to the analogous survey conducted six months ago, the share of fully satisfied applications increased, while that of rejected ones declined). The majority of surveyed enterprises assess the decline of financing sources as a small difficulty, whereas they will be considerably more concerned in the future about the growing tax burden, rising production costs or competition.

**Changes of lending conditions.** According to non-financial enterprises participating in the survey, in the second half of 2011, compared to the first half of 2011, the possibilities to obtain new loans remained unchanged (although they decreased six months ago), whereas credit standards became tighter. This was determined by tighter requirements on collateral, however, the price of borrowing of businesses from credit institutions declined.

**AB bankas SNORAS bankruptcy.** Three-fourths of non-financial enterprises that participated in the survey indicated that AB bankas SNORAS bankruptcy had a small impact on their activities and only 7.0 per cent of enterprises indicated this event as a large difficulty. The majority of enterprises are of the opinion that in the first half of 2012 the importance of this difficulty will remain unchanged, while 1.0 per cent of enterprises indicated that AB bankas SNORAS bankruptcy had a large importance on the activity of an enterprise and it will increase in the future.

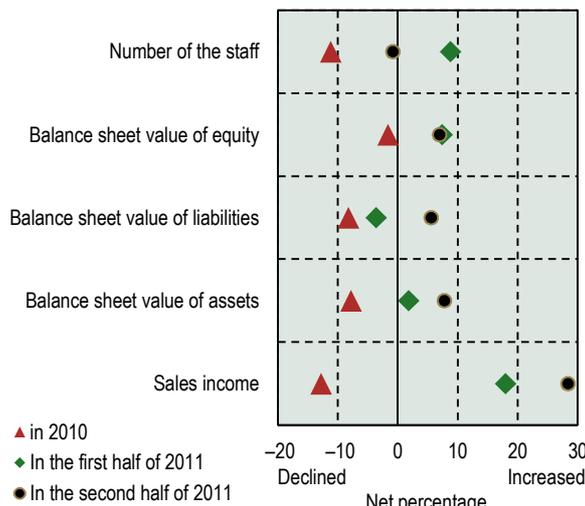
#### III. 2. Demographic characteristics and business trends of non-financial enterprises

The largest part of respondents that participated in the survey in terms of the number of staff consists of small and medium-sized enterprises (up to 250 employees) with the average period of operation at the time of the survey of approximately 12 years. In the second half of 2011, compared to the first half of 2011, the main financial indicators of the surveyed non-financial enterprises improved (sales income and the balance-sheet value of assets increased the most), however, the number of



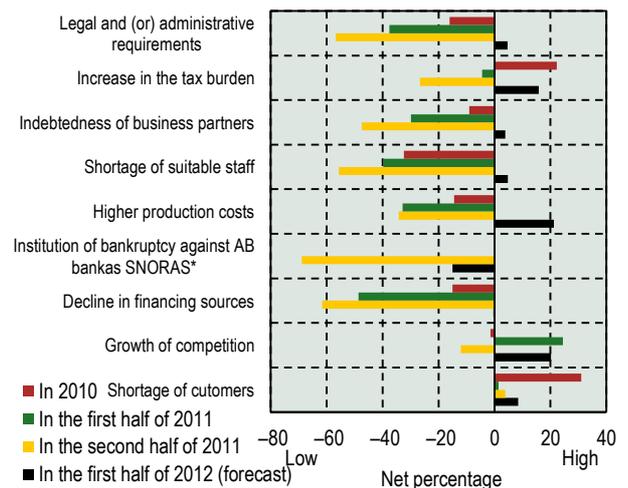
enterprises that reduced the staff number exceeded the number of those enterprises that expanded their staff. The share of the enterprises that earned profit in the second half of the year increased by more than one-tenth, whereas better performance results were recorded by enterprises in economic activities oriented towards exports (according to the survey data, enterprises slightly reduced their share of sales to foreign markets in the second half of 2011 – from 14.0 to 13.4 per cent). Because of the economic recovery and improvement in performance results of non-financial enterprises, a larger share of non-financial enterprises did not face significant challenges (see Chart 10), although the shortage of customers remains an important problem for business. The least important factors hindering enterprise activity in the second half of 2011 were the institution of bankruptcy proceedings against AB bankas SNORAS, decline of financing sources, current legal (administrative) requirements and the lack of suitable staff. Enterprises that participated in the survey expect that rising production costs and stronger competition in the first half of 2012 will be the biggest difficulties faced by non-financial enterprises. Besides, it is expected that during the said period the threat posed by the institution of bankruptcy against AB bankas SNORAS or the decline of financing sources to enterprise activity and its financial results will decline.

*Chart 9. Changes in the main financial indicators and the number of staff of non-financial enterprises in 2010 and 2011, compared to the respective 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 2011 and their expected changes in the first 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 not assessed in 2010 and the first half of 2011

In the second half of 2011, compared to the first half of 2011, the increase in sales income was recorded by a larger number of enterprises that participated in the survey, while the decrease was observed by a lower part. In the second half of 2011, the smallest increase of sales income was recorded in enterprises that provide services, whereas the largest increase was observed in construction and industry. The growth in the volume of works performed by construction enterprises may be linked to the improvement in the financial situation of the private sector and the improvement of expectations in mid-2011, whereas the sales of industrial enterprises grew together with the rise of demand in foreign markets, as, based on the survey data, one-third of sales income of industrial enterprises, i.e. the largest share, compared to other economic activities, is earned from exports. Enterprises in various economic activities increased the number of staff differently: the smallest increase in the number of staff was observed in trade enterprises, whereas the largest increase was recorded in construction enterprises. On the basis of the survey data, in the second half of 2011, compared to the first half, the share of enterprises that earned profit was higher than the share of enterprises that suffered losses. The share of enterprises that earned profit was the largest in industrial and trade



economic activities, whereas the share of enterprises that suffered losses was the largest in construction and services economic activities.

With the economic recovery and the strengthening of the financial situation of businesses, enterprises in all economic activities represented in the survey assessed the difficulties indicated in Table 2 and their importance in the second half of 2011 more as low (with the exception of the shortage of customers, which was assessed by the surveyed non-financial enterprises during the said period as a larger difficulty). However, difficulties that were encountered by enterprises in individual economic activities in the second half of 2011 and that will have a significant impact on their operation and financial results in the first half of 2012 were different (see table 2).

*Table 2. Importance of difficulties faced by the surveyed non-financial enterprises in their activities in the second half of 2011 and expected changes in the first half of 2012 (expected change in H1 2012 is indicated in parentheses)*

Difficulties	Industry	Construction	Trade	Services	Total
Shortage of customers	-6.5 (-6.8)	10.8 (2.7)	-6.9 (12.2)	9.6 (10.0)	3.8 (8.4)
Growth of competition	-39.1 (17.4)	0.0 (21.6)	0.0 (24.2)	-14.8 (19.4)	-12.0 (20.2)
Decline of financing sources	-69.6 (-6.7)	-27.8 (5.7)	-59.2 (0.8)	-70.8 (-0.7)	-61.6 (-0.4)
AB bankas SNORAS bankruptcy	-58.7 (-15.6)	-45.9 (-2.8)	-74.6 (-18.8)	-72.5 (-15.4)	-68.8 (-15.0)
Higher production costs	0.0 (24.4)	-40.5 (21.6)	-38.4 (24.4)	-39.1 (21.0)	-34.2 (21.2)
Shortage of suitable staff	-59.1 (2.2)	-45.9 (18.9)	-56.2 (1.6)	-57.9 (5.0)	-55.6 (4.8)
Indebtedness of business partners	-51.1 (2.2)	-11.1 (-8.6)	-38.6 (6.3)	-59.2 (5.0)	-47.4 (3.8)
Increase in the tax burden	-39.1 (21.7)	-29.7 (2.8)	-27.9 (18.1)	-24.4 (16.8)	-26.6 (15.8)
Legal (administrative) requirements	-66.7 (-2.3)	-75.0 (-5.6)	-50.0 (8.9)	-62.6 (5.7)	-56.8 (4.6)

Sources: Survey of non-financial enterprises on business financing ordered by the Bank of Lithuania and Bank of Lithuania calculations.

Note: the numbers presented in the table reflect the difference between the percentage share of enterprises which indicated that importance of the difficulty is high (will increase in the future) and the percentage share of enterprises which indicated that importance of the difficulty is low (will decrease in the future), expressed in percentage points. A positive number indicates that the share of enterprises which assessed importance of the difficulty as high (it will increase in the future) is larger, whereas a negative number indicates that the share of enterprises which assessed importance of the difficulty as low (it will decrease in the future) is larger.

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

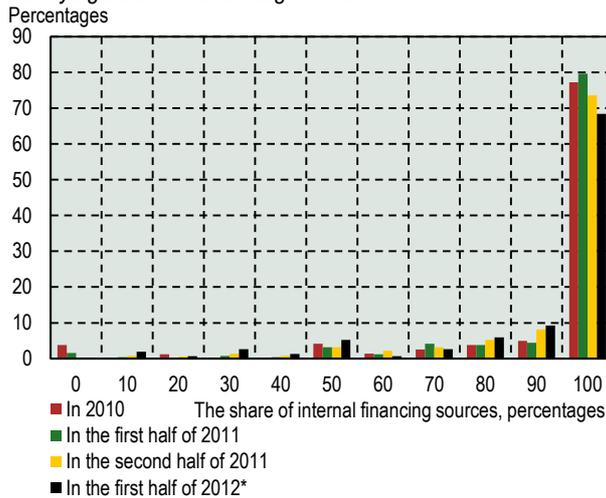
Compared to the results of the Survey of non-financial enterprises on business financing of October 2011, the share of enterprises that satisfy all business financing needs from their internal financing sources only, declined slightly and made up almost three-fourths of respondents that participated in the survey. Only one of all the surveyed non-financial enterprises satisfied its business needs just from external financing sources in the second half of 2011, although during the analogous survey conducted six months ago, there were 8 such enterprises (the total number of enterprises participating in the survey was 500). In the opinion of respondents, which satisfied 50 per cent or more of their business financing needs from internal financing sources, the most significant influence on such choice was made by sufficient internal financing resources or the absence of the need to borrow as well as excessive expenses related to external financing sources, whereas the least significant influence was made by the lack of information and distrust in the credit institutions system.

According to the survey data, 8.2 per cent of business financing needs were satisfied by using external financing sources in the second half of 2011, of which, the most popular were financial leasing, operating lease and factoring (used by 21.4% of the surveyed enterprises), bank loans (15.0%), account overdrafts and credit lines (9.2%). In the future (in the first half of 2012), the share of enterprises that intend to change business financing sources will increase, compared to the results of the analogous survey conducted six months ago, however, it will still remain relatively small (44 out of 500 surveyed enterprises). Enterprises



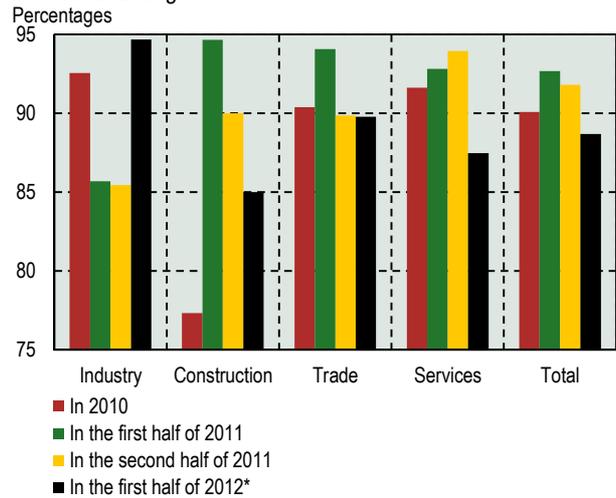
plan to increase the use of lending services provided by credit institutions (bank loans, account overdrafts and credit lines, financial leasing, operating lease, factoring) and utilise the European Union funds more actively. In the first half of 2012, 31.3 per cent of the surveyed enterprises plan their activity optimistically and intend to expand their business, which is slightly more than during the analogous survey conducted six months ago, whereas non-financial enterprises will seek to finance one-tenth of the said business expansion from borrowed funds.

*Chart 11. 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 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 data, in the second half of 2011, industrial enterprises had the largest share of business financing needs satisfied from external financing sources (14.6 %), whereas enterprises in other economic activities satisfied more than 90 per cent of their business financing needs using internal sources. Such choice was determined, irrespective of economic activity type, by sufficient internal financing resources or absence of the need to borrow. The most popular business financing sources among all surveyed enterprises were financial leasing, operating lease, factoring and bank loans, whereas industrial enterprises stood out, compared to enterprises in other economic activities, by their relatively active utilisation of the European Union funds. In the first half of 2012, industrial enterprises will be most inclined to change business financing sources: they will start borrowing from banks or will use internal financing resources more intensively. Trade and industrial enterprises assess future plans most optimistically, whereas services enterprises are least inclined to plan business expansion. Compared to the results of the analogous survey conducted six months ago, industrial and construction enterprises more cautiously assessed business expansion, whereas trade and services enterprises were more optimistic. Construction enterprises will finance one-fifth, i.e. the largest share, compared to enterprises in other economic activities, of their business expansion planned in the first half of 2012 from borrowed funds, whereas enterprises in other economic activities will finance one-tenth of it in this manner.

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

In the second half of 2011, compared to the first half of 2011, the share of enterprises, which indicated that they did not cooperate with credit institutions, did not intend to use and did not use the services provided by them, declined and made up 67.4 per cent (71.4% in the first half of 2011). The most popular credit institutions' services used by the surveyed non-financial enterprises in the second half of 2011 were leasing, short-term and long-term investment loans and credit lines. At the end of the



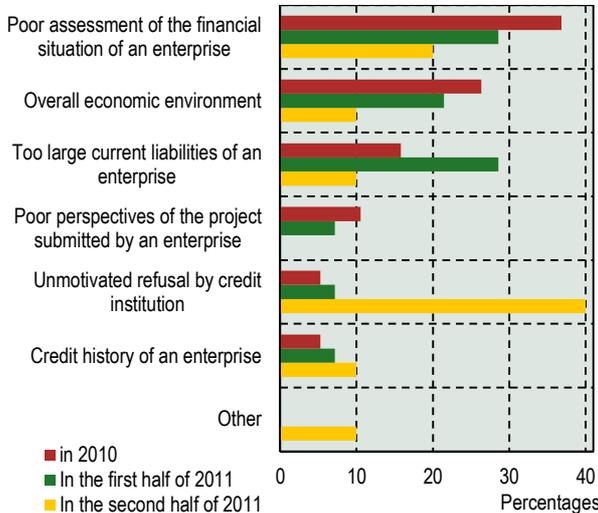
said period, two-thirds of obligations to credit institutions were secured by collateral, whereas non-financial enterprises paid the average annual interest of 5.4 per cent for the last assumed financial obligations, i.e. 0.3 percentage point less than in the first half of 2011.

In the second half of 2011, compared to the first half of 2011, the borrowing need of almost two-thirds of non-financial enterprises, which had financial obligations to credit institutions, remained unchanged. Businesses use the services provided by credit institutions more actively: a smaller share of the surveyed enterprises indicated that they did not have a need to borrow, however, the share of enterprises, whose need to borrow declined in the second half of 2011, compared to the share of those enterprises, whose need increased, was larger. During the said period, one-fifth of the surveyed non-financial enterprises that already had financial obligations (33 enterprises) applied to credit institutions for borrowing funds and/or changing the contractual terms and conditions of the existing obligations. The applications were satisfied and the whole indicated amount was borrowed for 18 surveyed enterprises that applied to a credit institution for borrowing funds and/or changing the contractual terms and conditions of the existing obligations (more than a half of the enterprises that applied for this purpose, although a year ago such enterprises comprised slightly more than 40%), whereas applications of 3 enterprises were rejected (less than one-tenth, although a year ago such enterprises comprised more than 15%). The reasons, for which applications were not satisfied in full or rejected, changed, compared to the analogous survey conducted in October 2011: in the second half of 2011, enterprises most frequently mentioned an unmotivated refusal of the credit institution and a poor assessment of the enterprise's financial situation. Those enterprises that applied to credit institutions for borrowing and/or changing the contractual terms and conditions of the existing obligations indicated that the possibilities of obtaining new loans remained unchanged, however, lending standards of these loans became tighter. Compared to the enterprises surveyed six month ago, during this survey non-financial enterprises assessed the possibilities of obtaining new loans and/or changing the contractual terms and conditions of the existing obligations more pessimistically and considered lending standards as tighter. According to the surveyed enterprises, it became more difficult to borrow or change the contractual terms and conditions of the existing obligations owing to tighter requirements on the mortgaged property and higher interest rates.

In the first half of 2012, compared to the second half of 2011, a slightly lower number of non-financial enterprises will have a need to borrow from credit institutions. This was indicated by 32.0 per cent of enterprises that participated in the survey, i.e. 6.6 percentage points less than during the analogous survey conducted six months ago. Same as in previous periods, non-financial enterprises will use borrowed funds mainly for the repair or acquisition of equipment, machinery and vehicles, as well as for the acquisition of commodities or materials.

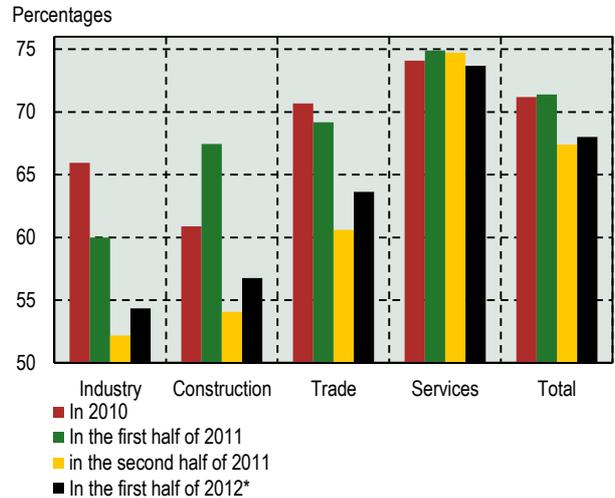


Chart 13. Reasons for unsatisfied or incompletely satisfied applications for borrowing and/or changing the contractual terms and conditions of the existing obligations by frequency of their indication



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

Chart 14. Share of non-financial enterprises that did not use the services provided by credit institutions (did not borrow from them)



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 second half of 2011, industrial and construction enterprises cooperated with credit institutions and borrowed financial resources for their business needs most actively, whereas trade and services enterprises did that most passively. The largest share of liabilities of non-financial enterprises to credit institutions, compared to total balance-sheet liabilities, at the end of the second half of 2011 was in services enterprises, while the lowest share was in trade enterprises. Compared to the results of the analogous survey conducted six months ago, non-financial enterprises reduced their financial obligations to credit institutions, compared to total balance-sheet liabilities. Industrial and services enterprises borrowed for a slightly higher interest rate than the average interest rate, while construction and trade enterprises borrowed slightly cheaper. In the second half of 2011, compared to the first half, the average interest rate declined for industrial and construction enterprises, did not change for trade enterprises and increased for services enterprises.

In the second half of 2011, compared to the first half, contrary to enterprises in other economic activities, the need to borrow from credit institutions of a larger part of services enterprises increased, compared to those whose need to borrow decreased (although the trend was opposite during the analogous survey conducted six months ago). In the second half of 2011, compared to the first half, one-sixth of enterprises that cooperated with credit institutions indicated that their borrowing need increased (compared to the results of the analogous survey conducted six months ago, there was almost one-fifth of such enterprises), whereas there was no need to borrow or it was smaller for one-fifth of enterprises (during the previous survey there was respectively one-fourth of such enterprises). The survey results show that the share of both surveyed non-financial enterprises that do not have a need to borrow and those that have a need to borrow declines, whereas the number of those enterprises, whose need to borrow remains unchanged, increases. Industrial enterprises applied to credit institutions for borrowing and/or changing the contractual terms and conditions of the existing obligations most actively (trade enterprises did that most passively). Credit institutions satisfied all applications of trade enterprises, while construction enterprises had the largest number of applications that were not fully satisfied or were rejected. The possibilities for obtaining new loans and their lending standards were assessed most optimistically by trade enterprises, whereas construction and services enterprises assessed them as poorer. In the first half of 2012, industrial and trade enterprises will use the services provided by credit

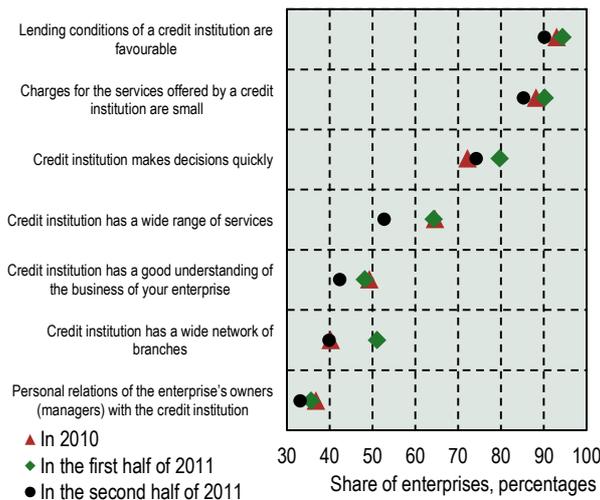


institutions most actively, while enterprises in all economic activities will increase borrowing, with the exception of industrial enterprises (during the analogous survey conducted six months ago, enterprises of all economic activities indicated that they will increase borrowing from credit institutions).

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

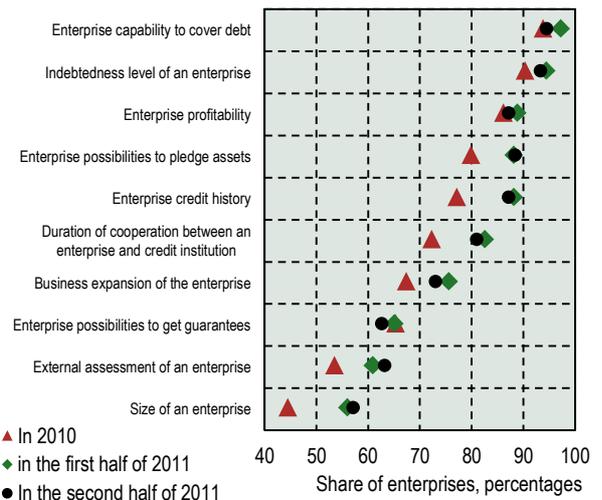
Same as during the analogous survey conducted six months ago, non-financial enterprises seek to maintain long-term relations with creditors, although the share of obligations to one credit institution contracted slightly. The factors that determine the selection of a credit institution also remained unchanged: the most important factors for enterprises were favourable lending conditions of a credit institution, low service charges and quick making of decision, whereas personal relations of an enterprise's owners (managers) with a credit institution were least important. According to the surveyed non-financial enterprises, when a credit institution is making a decision to lend, the most important factor for it is the enterprise's capability to cover debt, its level of indebtedness and credit history. Enterprises indicated their market share as the least important factor.

Chart 15. Share of enterprises that indicate the following factors as important or 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 16. Share of enterprises which think that the following factors are important or very important in the credit institution's decision-making regarding borrowing



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

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

The Survey was prepared by the Financial Stability Division of the Economics Department of the Bank of Lithuania.