

Financial statistics on corporations – existing gaps and future possibilities

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Abstract

During the most turbulent stage of the financial crisis in 2008 and in 2009, Swedish small - and medium sized enterprises (SMEs) had severe difficulties in getting credits from Swedish banks. However, these financial problems seemed not to be mirrored in the statistics. This paper will examine what was actually stated by the SMEs and what could be seen in the statistics. Based on the result of this investigation we will bring up some suggestions of what can be done to improve the statistics on financial conditions of the non-financial corporate sector.

The views expressed in this paper are solely the responsibility of the authors and should not to be interpreted as reflecting the views of Statistics Sweden. The paper is to be regarded as a report on ongoing studies and the authors will be pleased to receive comments.

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Introduction

The financial crisis started in the United States in 2007 and peaked in autumn 2008 after the bankruptcy of Lehman Brothers. The collapse of Lehman Brothers caused a global meltdown in the financial market. Some of the market functions stopped working during this period. To prevent a financial disaster governments and central banks responded with unprecedented fiscal stimulus and monetary policy expansion. One of the sectors that were substantially affected was the non-financial corporate sector. According to the Sveriges Riksbank Survey from December 2008 – January 2009¹ more than one half of the companies stated that access to credit had become significantly restrained. Other surveys, made by among others NIER² and ALMI Företagspartner³, demonstrated the same situation. As a contradiction to this there are statistics from Statistics Sweden that illustrate a somewhat different picture. An example of this is the value of the non-financial corporate sector's outstanding amount of debt securities that actually increased throughout the year of 2008. Another inconsistency is the commercial banks' lending to the sector which also grew during the period. To the rather ambiguous picture of the financing situation of the Swedish non-financial corporate sector contributed media and also the political establishment. There were numerous articles and comments in newspapers and other media during the financial crises who testified about the difficulties of accessing finance for the corporate sector. Even the Swedish Parliament's Committee on Finance had viewpoints on the official statistics on bank's lending. In June 2009 the Committee pointed out to the Sveriges Riksbank that there are statistics lacking on bank's lending divided into different firm sizes.

¹ *The Riksbank's Company Interviews December 2008 – Januari 2009*, www.riksbank.se

² National Institute of Economic Research, www.konj.se, 2010-06-30

³ Almi Företagspartner, www.almi.se, 2010-06-30

In this paper we will compile all major surveys that were made during this period trying to illustrate an adequate picture of the Swedish corporate sector's financial situation. This compilation will thereafter be compared with the existing statistics on this area collected from Statistics Sweden. Based on the result we try to explain existing contradictions in the statistics and demonstrate further assignments that can be made to get a better statistical overview of the non-financial corporate sector.

Non-financial corporation's funding situation, qualitative approach

In January 2009 Sveriges Riksbank observed in the publication "The Riksbank's company interviews December 2008 – January 2009" that the Swedish companies' funding situation had become more difficult during the autumn. Since September 2008 more than half of the companies participating in the survey had problems with funding and stated that access to credit had become significantly restrained.

Borrowing on the international capital market became considerably more expensive and difficult during the end of 2008. None of the companies in the report issued any bonds or commercial papers as the interest rate was too high⁴. The willingness of major international banks in lending to Swedish companies did also decline drastically. According to the companies, the international banks reverted to their domestic markets. Most of the larger companies seemed to meet their borrowing requirements in various ways. Several companies in the survey had to withdraw to their domestic market. This meant that the companies were getting credits from Swedish banks in a greater extent than previously.

⁴ *The Riksbank's Company Interviews December 2008 – January 2009*

The larger companies' increased demand for Swedish bank credits raised concerns that it could prevent smaller companies to get loans. Add the fact that the banks had severe problems with their own funding and we had a classical crowding out situation.

The Riksbank's company interviews normally focus on larger companies.⁵ However, in March 2009 interviews with medium sized companies were also represented in the report. Compared to the larger companies the medium sized companies seemed to be meeting their borrowing requirements in a larger extent. The small and medium sized (SMEs) enterprises do not have access to the international capital markets. Thus, they were not affected directly by the increased turbulence on the money and fixed income markets.

This view is also supported to a certain extent by the Swedish National Institute of Economic Research (NIER). The survey from NIER provides the widest existing coverage of how the Swedish companies perceived their funding situation during the financial crisis. In order to contribute to the picture of the possible effects of the financial turbulence on companies' financing opportunities, NIER expanded their monthly Economy Tendency Survey⁶. This survey covers a larger sample than the Riksbank's company interviews. About 1800 companies were asked whether it was currently more difficult or easier than normal to finance their activities. Approximately 31 percent of the companies in the non-financial corporation sector stated in November 2008 that it was currently more difficult to finance the company's activities. Companies with more than 500 employees and firms with less than 50 employees perceived the financing problems as worse than the medium sized companies. The main obstacle to financing activities was reported to be the opportunities to obtain bank loans.

⁵ It has to be noted that the Riksbank's company interviews is adjusted to the issues that are important to monetary policy on different occasions. The sample comprises about 60 companies and does not need to represent the business sector as a whole.

⁶ <http://www.konj.se>, 2010-06-30

This was also the case for the larger companies. Less than 10 percent of the companies with more than 500 employees claimed that they were concerned by the increased cost of financing by issuing bonds and commercial papers. The Economy Tendency Survey where expanded until August 2009. Through that period the smaller companies became gradually more satisfied with the current funding situation compared to the larger.

The information brought by the Riksbank's company interviews and the Economy Tendency Survey is somewhat mixed. The Riksbank's company interviews are mainly from the larger companies' perspective. Most of them seemed to be meeting their funding needs during the financial crisis, even though they had to revert to domestic banks and more expensive forms of funding such as credit lines. By the scope of the sample, the Economy Tendency Survey brings a wider view of the funding situation for the business sector during the financial crisis. As in the Riksbank's report the medium sized companies seemed less concerned by financing problems than the smaller and larger companies. However it is not possible to draw clear cut conclusions through the data provided by the Economy Tendency Survey.

The evidence provided by The Riksbank and by the NIER cover the demand side of funding - how the companies perceive their possibilities to finance their activities. For further understanding of the funding situation it is also possible to study the supply side of funding. The public financing company, ALMI Företagspartner, which mainly aim to support SMEs conduct a quarterly loan indicator where they ask the banks how they perceive the companies financing situation. From October 2008 throughout entire 2009 the banks in the survey stated that their lending to companies decreased.⁷ According to the banks this could be explained by the unwillingness of the companies' to invest. Also, the banks where less inclined to lend to the companies due to increased risk and reluctance to tie up capital.

⁷ www.almi.se, 2010-06-30

Maybe as a result of the latter explanation the demand for credits from ALMI increased during that period.

Information is also brought from the Swedish Export Credit Corporation (SEK) and Swedish Export Credits Guarantee Board (EKN) who met a surge in the demand for export credits during 2009. The demand for guarantees from EKN increased nine-fold during the first half of 2009 compared to the corresponding period in 2008.⁸ Mainly SMEs were behind the increased demand as they had more problems to receive guarantees from the private market. Also SEK increased their lending significantly to Swedish exporting companies. Accordingly to SEK they filled the gap that emerged when the banks couldn't provide long-term lending.⁹

What do statistics say?

At Statistics Sweden there are several units collecting data that concern the financial situation of the non-financial corporate sector: The Balance Statistics, the financial market statistics and the balance of payments. While the balance of payments just covers the foreign aspect of the non-financial corporate sectors financial situation, we will just focus the discussion on the two former statistics.

The Balance Statistics shows financial assets and liabilities for non-financial corporations, positions and transactions. Among other, this comprises debt securities issued on the capital markets, loans within the group and loans from Swedish and foreign banks which covers enough to picture an overall view of the financial situation of the corporate sector. While the Balance Statistics cover all of the larger corporations, it samples the smaller strata which are adjusted upwards.

⁸ The total amount of offers during the first half of 2009 was just over SEK 200 billion, compared to SEK 22 billion for the corresponding period in 2008. www.ekn.se, 2010-06-30

⁹ The volume of new customer financing during the year totaled SEK 122.5 billion, compared to SEK 64,9 billion for 2008. www.sek.se, 2010-06-30.

The Financial Market Statistics provide an overall picture on Swedish monetary and financial institutions (MFI) assets and liabilities and are collected primarily on a monthly basis. The Financial Market Statistics also cover the MFI's lending to the corporate sector. The survey is a census and should fully cover Swedish MFI's lending to the non-financial corporations sector.

To investigate the corporate sector's financial situation from a statistical point of view we will start by studying the sector's possibility to borrow currency on the international capital markets. Thereafter we will examine the bank's lending to the sector and further on we will demonstrate the Swedish corporate sectors consolidated debt burden.

Borrowing in debt securities

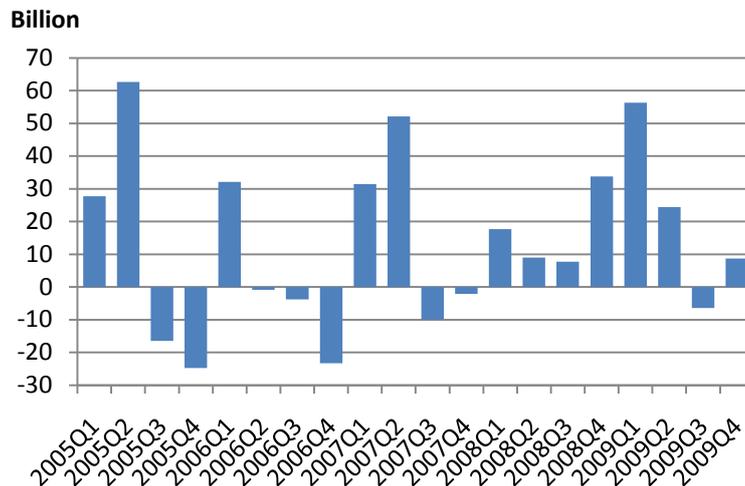
Issuing corporate bonds and commercial papers on the international capital markets is an important financial source for large international Swedish corporations. But according to the Riksbank's interviews during December 2008-Januari 2009 none of the companies in the report managed to issue bonds or commercial paper on the international capital market during that period.

However, that is not manifested in the statistics. A survey conducted by the Statistics Sweden compile Balance statistics on corporation's financial assets and liabilities on a quarterly basis illustrate a somewhat different picture. From the beginning of 2008 and the following eighteen months the outstanding amount of debt securities actually increased which implies that issues of debt securities were indeed possible.

One important explanation to this contradiction is that Sweden is a quite small country with just a few companies that are active on the international market for debt securities. Yet, the domestic market contains both medium

and large corporations. Smaller companies hardly ever use debt securities as a form of borrowing. The small number of players issuing debt securities result in statistics that is highly dependent on single actor's movements on the market. This was obvious during the late 2008 and the beginning of 2009 when a few large companies successfully issued large amounts of bonds on the international market which affected the statistics significantly.

Picture 1. Non-financial corporations' borrowing in debt securities, bonds and certificates, quarterly change in outstanding amount



Source: Statistics Sweden

The figures on macro-level therefore show an increase in bonds and certificates but this could all depend on a very few large companies.

Another factor that has affected the picture a great deal is the national currency and its development during this period. The largest part of debt securities issued abroad is denominated in foreign currency and since the Swedish krona depreciated 14% only during the period August to December 2008 this reflects upon a rising debt.

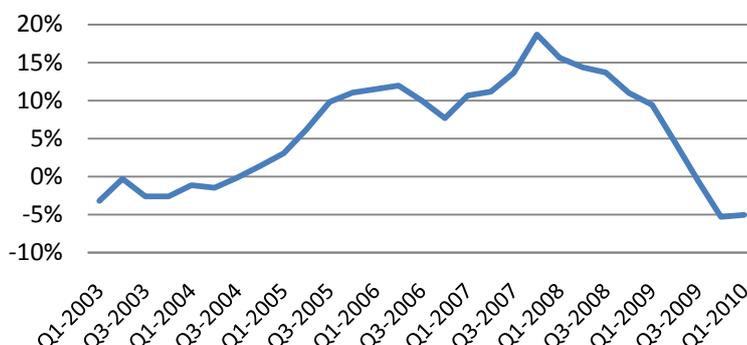
Diminishing growth rates in lending and falling interest rates

During the financial crisis in 2008 and 2009 the non-financial corporation sector were not only struggling in obtaining currency via the securities market, the banks' willingness to lend to the sector did also decrease.

According to the banks that were participating in ALMI Företagspartner surveys¹⁰ the reduction in banks' lending was not only due to their constraints but also caused by the fact that the companies demand for credit actually fell during the crisis.

Even though the Swedish banks were more restricted in giving credits during the autumn 2008, their lending to the corporate sector did actually continue to grow during the period. In the two last quarters of 2008 the growth rate in the outstanding lending stock to the corporate stock grew with 14 and 11 percent compared to the stock level at the same period the year before (Picture 2). The credit offer on a quarterly basis did also continue to grow during the end of 2008. A reasonable explanation to this could be what was mentioned in the Riksbank's company interview report: larger Swedish companies financed their activity by borrowing from Swedish banks since the international capital market was no longer an alternative. Whether this circumstance prevented smaller companies from getting loans or not cannot be shown by the statistics.

Picture 2. MFIs' lending to non-financial corporations, yearly change

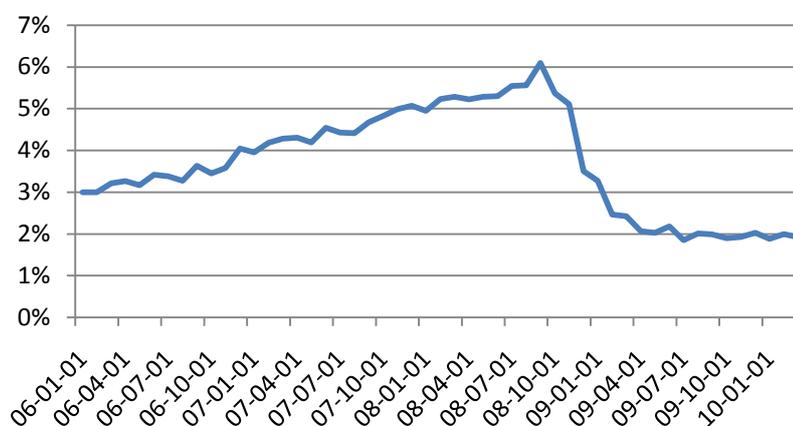


Source: Statistics Sweden

¹⁰ www.almi.se, 2010-06-30

Although the corporate sector continued to borrow in 2008 there is a trend break since the annual growth rate actually starts to decline in the first quarter of 2008. In the third quarter 2009 the growth rate was negative for the first time since 2004. This coincides with the sharp economic downturn that Sweden faced in 2009. The gross national product fell by 4.9 percent in 2009 – the deepest fall in Swedish history since World War II.¹¹ The decline in borrowing is probably mainly caused by the recession and not by the fact that corporations were rejected by the banks. This is further emphasized by the decline in the interest rates during the current period. One of several measures used by the Swedish Riksbank to prevent a financial collapse was to quickly reduce the Swedish repo rate to a very low level. In September 2008 the repo rate was at a level of 4.75 percent, a half year later it was as low as 1.0 percent and in July 2009 the Swedish Riksbank lowered the repo rate to 0.25 percent. The decline in the repo rate affected of course the MFIs lending rates which fell from 6 to 2 percent in six months (Picture 3). Although the Riksbanks drastic cuts in the repo rate had a very positive effect on the non financial corporations' borrowing costs this has evidently not encourage the sector to increase their borrowing.

Picture 3. MFIs' lending rate on new agreements



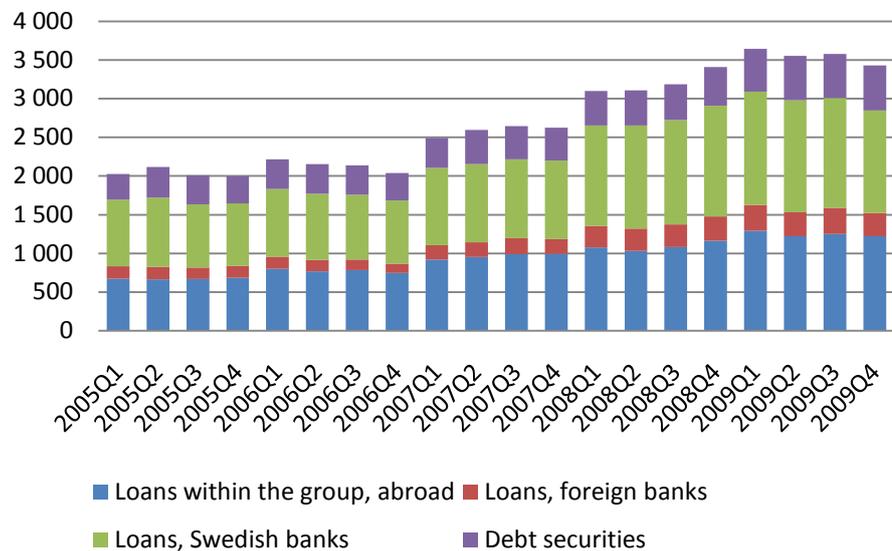
Source: Statistics Sweden

¹¹ www.scb.se 2010-06-30

Consolidated liabilities

To get an overview of the complete financial situation of the non-financial corporation sector several statistical measures from the Balance Statistics have to be used: *debt securities issued on the market, loans within the group, loans from Swedish and foreign banks*. In line with the earlier discussion the general expectation would be that the companies' consolidated liability burden should have declined during the crisis in 2008 and 2009. The overall picture of the difficulties of issuing securities, banks tightening of credits and the steep economic downturn implied a decline of debt in the corporate sector. Still though, statistics shown earlier proved the contradiction for the year 2008. Yet, for the year of 2009 the statistics seem to stay closer to the assumption.

Picture 4. The non-financial corporation's consolidated liabilities, billions



Source: Statistics Sweden

Picture 4 above shows, at a great extent, what have already been illustrated in earlier statistics in the article.¹² During the last two quarters in 2008 the enterprises' balance sheets expanded, especially in the last quarter of the year. In accordance with earlier evidence the sector's balance sheet shrunk in 2009. During the last two quarters in 2008 the growing debt applies to all the instruments and the different sources. In 2009 it is the sector's loans from foreign banks that seem to decline in particular. Worth mentioning is the influence by the Swedish krona which effected all loans taken in foreign currency during 2008 and 2009.

Proposal on further improvements

The existing statistics picture the companies funding situation on an aggregate level. However, they are not sufficient to study how a financial crisis affects companies of different sizes. For a deeper understanding there is a need for new measures as well as developing the existing ones. Along with statistical measures, qualitative measures is also of a great importance.

Qualitative measures

The temporary expansion of the Economy Tendency Survey and the bank survey performed by ALMI provide other important aspects of the companies funding situation. Firstly this gives some more detailed understanding on any of the financing difficulties that faces the companies from the companies' perspective. Keeping the expansion of the survey on a permanent basis would be a beneficial complement to the Riksbank's company interviews and would provide a better understanding of the SMEs funding situation. Secondly it also provides some understanding of the banks' lending to companies which the existing statistics do not capture.

¹² The data used in Picture 4 derive from a random sample consisting of all non-financial corporations. While it covers all of the larger corporations, it samples the smaller strata which are adjusted upwards. The sample is drawn once a year.

The companies' consolidated liabilities do not picture their funding requirements - the need for credits was probably higher during the crisis than the supply. ALMI's survey provides some evidence on loan application denials and the banks risk assessment of the companies differ over time.

Breakdown of the existing statistics by enterprise size

A deeper and more detailed analysis concerning the non-financial corporation's financial situation would be obtained by breaking down the existing statistics by enterprise size.

As the Balance Statistics is already based on a collection of different size strata, they could be used to analyze whether there are idiosyncrasies or not. Changes of the different components of the consolidated liabilities in each stratum would also be useful for further examination on the enterprises financial situation. Since the smaller strata in the Balance Statistics derive from a random sample which is adjusted upwards, this might demand the sample for each of the smaller strata to be enlarged. Enlarging the sample does not only require more resources, it would also increase the companies reporting burden in total which oppose the Swedish government's requirement on reduction of the reporting burden.

Breaking down the parts of the Financial Market Statistics by enterprise size would also benefit a deeper analysis of the non-financial corporation sectors funding situation. This should mirror the Balance Statistics but is nevertheless very useful since the financial market statistic is a census and covers thus the Swedish MFI's lending to the corporate sector. The Financial Market Statistics are currently not collected broken down by enterprise size. Changes in the data collection of the financial market statistics is normally a long process. Nevertheless, it is probably a more realistic way forward since changes in the Financial Market Statistics affect fewer respondents than changes in the Balance Statistics.

Central Credit Register

Similar to a breakdown by company size of the MFI's lending to the non-financial corporate sector would be a central credit register. Many European central banks have an integrated central credit register which primary objective is to provide a service for institutions that need to assess risk when granting credit. To fulfill this aim, these institutions have access to the total liabilities of each customer in the financial system. The major part of the central credit registers is also set up to provide policy-makers with all the credit-related information that could be useful to their decision-making. In France, for example, the threshold for reporting exposures is EUR 25,000 (since January 2006)¹³. Given this threshold, it is possible to collect information on a large number of companies, in particular small-sized ones. The data contained in the French credit register may be associated or combined with other descriptive accounting or financial information from the French database "FIBEN". This makes it possible to obtain aggregated data on areas such as: *economic sectors, geographical areas, loan categories, etc.*

In Sweden no such data is collected for companies and organizations. A credit register for private individuals exists managed by UC¹⁴. While UC covers most of the credits of private individuals, their company register is limited to the companies' financial statements. To create a Swedish credit register for companies is certainly not an easy task. Nevertheless, for the monetary and financial authorities it would constitute a mine of information on the current economic condition in general and more specifically, it would shed a lot light on the companies' borrowing and the bank's lending.

¹³ The economic impact of business failures in 2008 and 2009, Banque de France, Quarterly Selection of Articles, No. 17, Spring 2010. p 36

¹⁴ Uppgiftslämnar Centralen, a business and credit information agency owned by seven major Swedish banks.

Conclusion

In this paper a compilation of what has been stated about the non-financial corporations funding situation during autumn 2008 and the beginning of 2009 has been presented. This qualitative information has thereafter been compared to available statistics from Statistics Sweden. In the end of the paper we have suggested measures that could be taken to improve the statistical description of the corporate sector's financial situation.

Surveys made by the Swedish Riksbank and NIER give a unanimous picture of a financial situation that has become significantly more restrained during the financial crisis and the following real economic downturn. According to the reviews the companies' funding situation was tightened with respect to securities issues and bank loans. The last constraint was also confirmed in the survey made by ALMI as well as in the enormous surge in the demand for export credits during the period.

In contrast to the more qualitative information from the surveys the statistical data illustrate a somewhat different picture. Despite the common picture of an international capital market that was more or less nonfunctional during autumn 2008 the sector's outstanding amount of debt securities was actually increasing during the period. Another contradiction to the surveys is the statistics of the bank sector as well as the statistics of the corporations' consolidated debt burden. These sources do also indicate that funding was indeed possible during 2008 and 2009.

An explanation to the first contradiction mentioned above has already been given in the article - the depreciation of the Swedish Krona. Another, more important, explanation is the fact that there are only a few very large corporations that use the international capital market. A few of those, with high credit worthiness, were able to come out with new issues.

Concerning increased stocks of bank lending during 2008 and the beginning of 2009 the reason to the contradiction is probably the same as the previous; large companies pervade the statistics.

By taken the given fact above in concern the main conclusion in this article is that there is indeed a gap in the statistics. Data concerning the non financial sector does not manage to capture the SMEs financial situation. The last part of the article is therefore suggesting some further steps to be taken in order to develop the statistics on financial conditions for the non-financial corporation sector.

The first proposal is to maintain the enlargements of the surveys that were made during the crisis since they gave important qualitative insights of the SMEs funding situation. The second proposal is to split the sample into groups sorted by size – this would make it possible to study the SMEs. Unfortunately this method would not only be expensive for both authorities as well as for the corporations, it does also oppose to the requirements on reduction of the report burden

The third and the most essential point that is brought up in this part of the paper is the lack of a Swedish central credit register for non-financial corporations. A central credit register would make it possible to easily compile data from SMEs that could illustrate quick changes in their funding possibilities. Nevertheless, to create such a vast register demand a deep and careful investigation that is beyond the scoop of this paper.

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