

Financial statistics on corporations – existing gaps and future possibilities

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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 sector that was substantially affected was the non-financial corporate sector. According to the Sveriges Riksbank Survey from December 2008 – January 2009,² more than half of the companies stated that access to credit had become significantly tighter. Other surveys, made by among others NIER³ and ALMI Företagspartner,⁴ demonstrated the same situation. Contradicting this 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, which actually increased throughout the year of 2008. Another inconsistency is commercial banks' lending to the sector, which also grew during the period.

Contributing to the rather ambiguous picture of the financing situation of the Swedish non-financial corporate sector were the media and the political establishment. There were numerous articles, and comments in newspapers and other media, during the financial crises citing the difficulties that the corporate sector had in accessing finance. Even the Swedish Parliament's Committee on Finance had viewpoints on the official statistics on bank lending. In June 2009 the Committee pointed out to the Sveriges Riksbank that there was a lack of statistics on bank lending broken down by firm size.

In this paper we bring together 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 then be compared with the existing statistics on this area, collected from Statistics Sweden. Based on the results, 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 corporations' 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

¹ 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 would welcome comments.

² *The Riksbank's Company Interviews December 2008 – January 2009*, www.riksbank.se.

³ National Institute of Economic Research, www.konj.se, 2010-06-30.

⁴ ALMI Företagspartner, www.almi.se, 2010-06-30.

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 tighter.

Borrowing on the international capital market became considerably more expensive and difficult at the end of 2008. None of the companies in the report issued any bonds or commercial paper, as the interest rate was too high.⁵ The willingness of major international banks to lend to Swedish companies also declined drastically. According to the companies, the international banks reverted to their domestic markets. Most of the larger companies seemed to find various ways to meet their borrowing requirements. Several companies in the survey had to withdraw to their domestic market. This meant that the companies were getting credits from Swedish banks to a greater extent than previously.

The larger companies' increased demand for Swedish bank credits raised concerns that it could prevent smaller companies from getting 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.⁶ 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 more effectively. Small and medium-sized enterprises (SMEs) 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 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 its monthly Economic Tendency survey.⁷ 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% of the companies in the non-financial corporate 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 did the medium-sized companies. The main obstacle to financing activities was reported to be the lack of opportunities to obtain bank loans.

This was also the case for the larger companies. Less than 10% of the companies with more than 500 employees claimed that they were concerned by the increased cost of obtaining financing through the issuing of bonds and commercial paper. The Economic Tendency survey was expanded to August 2009. Through that period, the smaller companies became gradually more satisfied than the larger companies with the current funding situation.

The information revealed by the Riksbank's company interviews and by The Economic Tendency survey is somewhat mixed. The Riksbank's company interviews are mainly from the larger companies' perspective. Most of these companies 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. Because of the scope of the

⁵ *The Riksbank's Company Interviews December 2008 – January 2009.*

⁶ It should be noted that the Riksbank's company interviews are adapted to the issues that are important to monetary policy at specific times. The sample comprises about 60 companies and does not need to represent the business sector as a whole.

⁷ <http://www.konj.se>, 2010-06-30.

sample, The Economic Tendency survey provides 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 about financing problems than did the smaller and larger companies. However it is not possible to draw clear-cut conclusions from the data provided by The Economic Tendency survey.

The evidence provided by The Riksbank and by the NIER cover the demand side of funding – how the companies perceive their possibilities of financing their activities. For further understanding of the funding situation, one can also study the supply side of funding. The public financing company, ALMI Företagspartner, which mainly aims to support SMEs, conducts a quarterly loan indicator survey in which they ask the banks how they perceive companies' financing situation. From October 2008 throughout the entirety of 2009, the banks in the survey stated that their lending to companies had decreased.⁸ According to the banks, this could be explained by companies' unwillingness to invest. Moreover, the banks were less inclined to lend to companies, due to increased risk and a reluctance to tie up capital.

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

Also useful is information from the Swedish Export Credit Corporation (SEK) and the Swedish Export Credits Guarantee Board (EKN), which 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 2008.⁹ It was primarily SMEs that were behind the increased demand, as they had more problems obtaining guarantees from the private market. In addition, SEK significantly increased its lending to Swedish export companies. According to SEK, it filled the gap that emerged when the banks couldn't provide long-term lending.¹⁰

What do the statistics say?

At Statistics Sweden, there are several units collecting data concerning the financial situation of the non-financial corporate sector: the balance statistics, the financial market statistics and the balance of payments statistics. While the balance of payments covers only the foreign aspect of the non-financial corporate sector's financial situation, we will limit our focus here to a discussion of the first two statistics.

The balance statistics show financial assets and liabilities for non-financial corporations, positions and transactions. This includes, among other things, debt securities issued on the capital markets, loans within the group, and loans from Swedish and foreign banks, thus providing sufficient coverage to give an overall view of the financial situation of the corporate sector. While the balance statistics cover all of the larger corporations, they sample the smaller strata, which are adjusted upwards.

The financial market statistics provide an overall picture of Swedish monetary and financial institution (MFI) assets and liabilities, and are collected primarily on a monthly basis. The

⁸ www.almi.se, 2010-06-30.

⁹ 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.

¹⁰ The volume of new customer financing during the year totalled SEK 122.5 billion, compared to SEK 64,9 billion for 2008. www.sek.se, 2010-06-30.

financial market statistics also cover MFIs' lending to the corporate sector. The survey is a census and should fully cover Swedish MFIs' lending to the non-financial corporate sector.

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

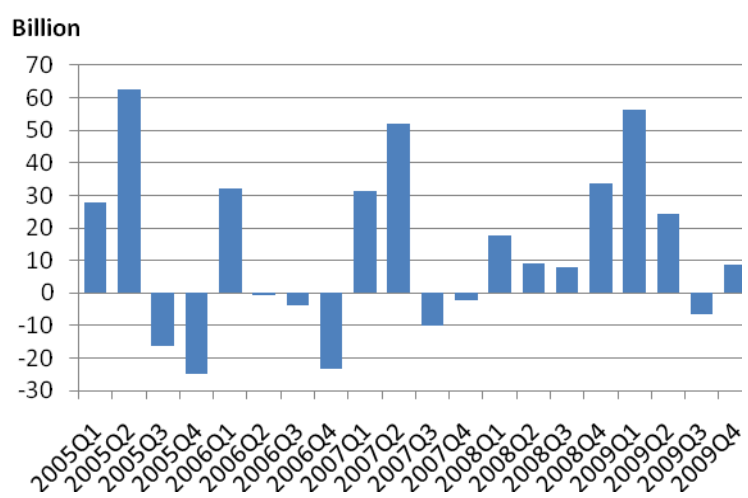
Borrowing in debt securities

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

However, this is not borne out by the statistics. A survey conducted by Statistics Sweden, compiling balance statistics on corporations' financial assets and liabilities on a quarterly basis, illustrates a somewhat different picture. From the beginning of 2008 and for the following eighteen months, the outstanding amount of debt securities actually increased, implying that issues of debt securities were indeed possible.

One important explanation of this contradiction is that Sweden is a rather 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 results in statistics that are highly dependent on single actors' movements in the market. This was obvious during late 2008 and the beginning of 2009, when a few large companies successfully issued large amounts of bonds on the international market, affecting the statistics significantly.

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



Source: Statistics Sweden

Macro-level figures, therefore, show an increase in bonds and certificates, but this could all be based on a very few large companies.

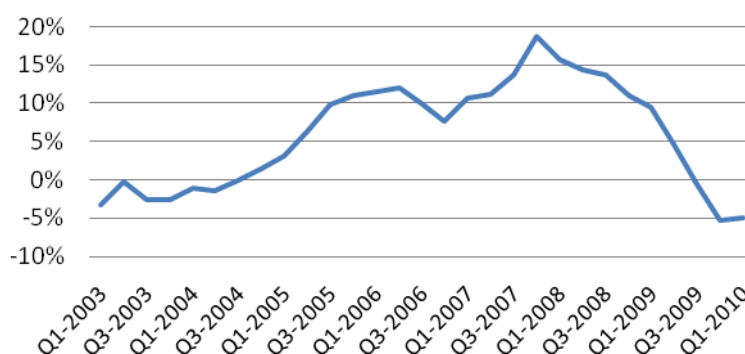
Another factor that has affected the picture a great deal is the national currency and its development during this period. The largest share of debt securities issued abroad is denominated in foreign currency, and since the Swedish krona depreciated 14% during the period from August to December 2008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

Diminishing growth rates in lending, and falling interest rates

During the financial crisis in 2008 and 2009, the non-financial corporate sector was not only struggling in efforts to obtain currency via the securities market, but there was also a decrease in banks' willingness to lend to the sector. According to the banks that participated in ALMI Företagspartner surveys,¹¹ the reduction in banks' lending was not only due to their constraints but was 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 of 2008, their lending to the corporate sector actually continued to grow during the period. In the two last quarters of 2008, the rate of growth in the stock of outstanding loans and in corporate stock grew by 14% and 11%, respectively, compared to stock levels at the same period the year before (Figure 2). The credit supply on a quarterly basis also continued to grow during the last part of 2008. A reasonable explanation of this could be what was mentioned in the Riksbank's company interview report: larger Swedish companies financed their activities 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.

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



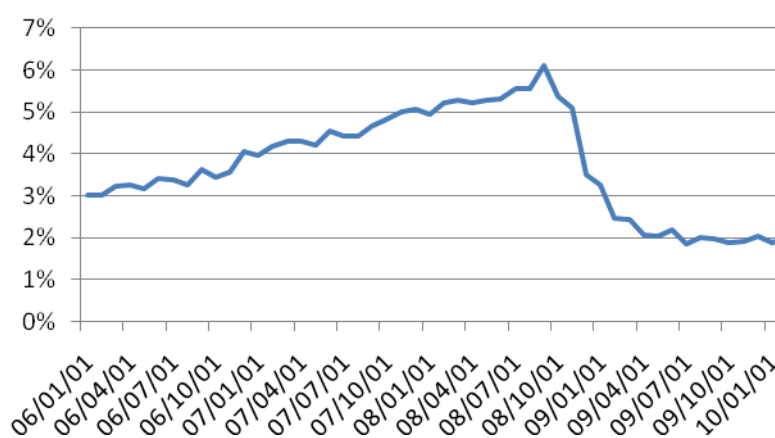
Source: Statistics Sweden

Although the corporate sector continued to borrow in 2008, there was a trend break, since the annual growth rate actually started to decline in the first quarter of 2008. In the third quarter of 2009, the growth rate was negative for the first time since 2004. This coincides

¹¹ www.almi.se, 2010-06-30.

with the sharp economic downturn that Sweden faced in 2009. The gross national product fell by 4.9% in 2009 – the deepest drop in Swedish history since World War II.¹² The decline in borrowing is probably mainly attributable to the recession and not to 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 4.75%; half a year later it was as low as 1.0%, and in July 2009 the Swedish Riksbank lowered the repo rate to 0.25%. Naturally, the decline in the repo rate affected the MFIs' lending rates, which fell from 6% to 2% in six months (Figure 3). Although the Riksbank's drastic cuts in the repo rate had a very positive effect on non-financial corporations' borrowing costs, this evidently has not encouraged the sector to increase its borrowing.

Figure 3. MFIs' lending rate on new agreements



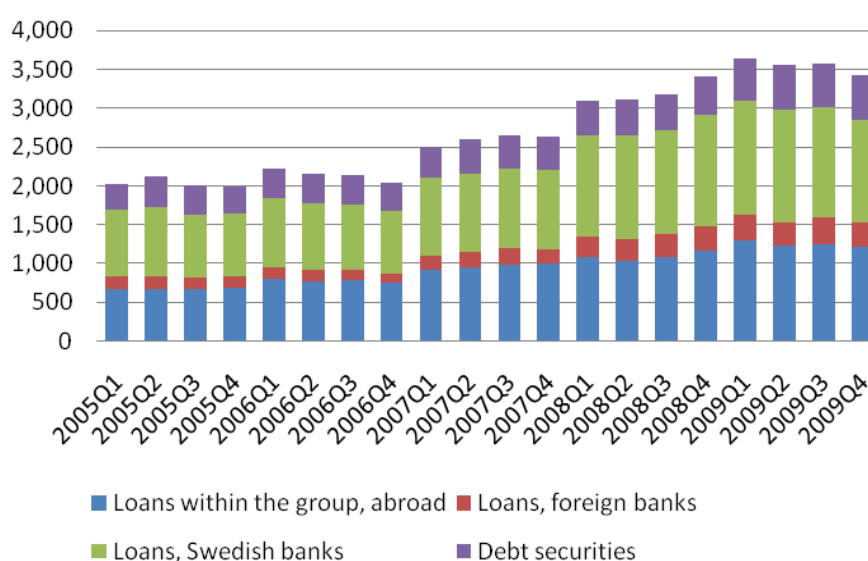
Source: Statistics Sweden

Consolidated liabilities

To get an overview of the complete financial situation of the non-financial corporate sector, several statistical measures from the balance statistics have to be used: *debt securities issued on the market*, *loans within the group*, and *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, statistics shown earlier proved the contrary for the year 2008. Yet for the year of 2009, the statistics seem to stay closer to the assumption.

¹² www.scb.se 2010-06-30.

Figure 4. Non-financial corporations' consolidated liabilities, billions SEK



Source: Statistics Sweden

Figure 4, above, shows, to a great extent, what has already been illustrated in statistics presented earlier in this paper.¹³ During the last two quarters of 2008, 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 of 2008, increasing debt could be seen in all instruments and among the different sources. In 2009, it was the sector's loans from foreign banks, in particular, that seemed to decline. Worth mentioning is the influence of the Swedish krona, which affected all loans made 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 for studying how a financial crisis affects companies of different sizes. For a deeper understanding, there is a need for new measures, as well as for developing the existing ones. Along with statistical measures, qualitative measures are also of great importance.

Qualitative measures

The temporary expansion of The Economic Tendency survey and the bank survey performed by ALMI highlight other important aspects of the companies' funding situation. Firstly, this gives a more detailed understanding of the financing difficulties facing the companies, from the companies' perspective. Making the expansion of the survey permanent would usefully

¹³ The data used in Figure 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.

complement the Riksbank's company interviews and would provide a better understanding of SMEs' funding situation. Secondly, it provides some understanding of banks' lending to companies, which the existing statistics do not capture.

The companies' consolidated liabilities do not reflect 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 banks' risk assessments of the companies differ over time.

Breakdown of the existing statistics by enterprise size

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

As the balance statistics are already based on a collection of different-sized strata, they could be used to analyze whether or not there are idiosyncrasies. Changes in the different components of the consolidated liabilities for each stratum would also be useful for further examining enterprises' financial situations. Since the smaller strata in the balance statistics derive from a random sample, which is adjusted upwards, this might require that the sample for each of the smaller strata be enlarged. Enlarging the sample does not only require more resources, it would also increase the companies' total reporting burden, which goes against the Swedish government's mandate to reduce the reporting burden.

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

Central Credit Register

Similar to a breakdown by company size for MFIs' lending to the non-financial corporate sector would be a central credit register. Many European central banks have an integrated central credit register whose primary objective is to provide a service for institutions that need to assess risk when granting credit. To fulfil this aim, these institutions have access to the total liabilities of each customer in the financial system. The major part of the central credit register is also set up to provide policy-makers with all of the credit-related information that could be useful to their decision-making. In France, for example, the threshold for reporting exposures (as of January 2006) is EUR 25,000.¹⁴ 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. There is a credit register for private individuals, managed by UC.¹⁵ While UC covers most of the credits of

¹⁴ The economic impact of business failures in 2008 and 2009, Banque de France, Quarterly Selection of Articles, No. 17, Spring 2010. p 36.

¹⁵ Uppgiftslämnar Centralen, a business and credit information agency owned by seven major Swedish banks.

private individuals, its company register is limited to companies' financial statements. Creating 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, would shed much light on companies' borrowing and banks' lending.

Conclusion

This paper presented a compilation of what has been stated about the funding situation of non-financial corporations during autumn 2008 and the beginning of 2009. This qualitative information was then compared to available statistics from Statistics Sweden. At 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 the same picture – one of a financial situation that became significantly tighter during the financial crisis and in the following real economic downturn. According to the reviews, the companies' funding situation tightened with respect to securities issues and bank loans. The latter constraint was also confirmed in the survey made by ALMI, as well as by 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 bank sector's statistics, as well as the statistics of corporations' consolidated debt burden. These sources also indicate that funding was indeed obtainable during 2008 and 2009.

An explanation of 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 for the contradiction is probably the same as above: large companies dominate the statistics.

Given the above facts, the main conclusion of this article is that there is indeed a gap in the statistics. Data concerning the non-financial sector do not manage to capture SMEs' financial situation.

The last part of the article therefore suggests some further steps to be taken in order to develop the statistics on financial conditions for the non-financial corporate 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 SMEs' funding situation. The second proposal is to split the sample into groups sorted by size – this would make it possible to study SMEs. Unfortunately this method would not only be expensive for both authorities and corporations, but would also go against the requirements to reduce the reporting burden.

The third and most essential point raised 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, creating such a vast register would require a deep and careful investigation, which is beyond the scope of this paper.

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