DI ANALYSIS

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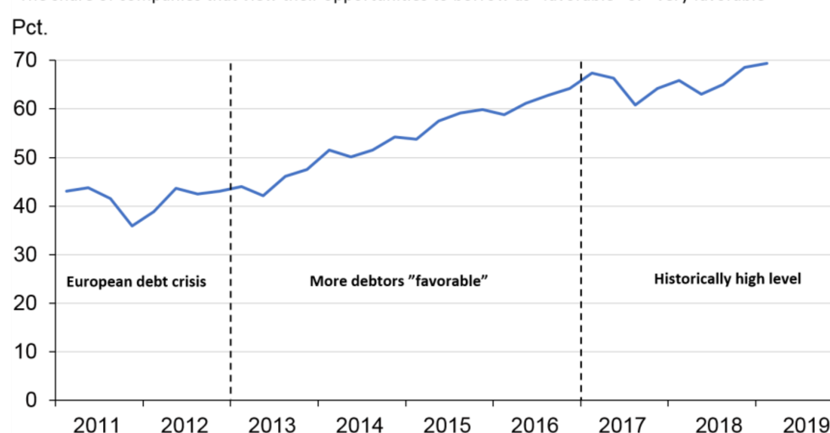
Exceptionally easy to borrow money

In the eight years that the Confederation of Danish Industries, DI has carried out surveys of the financial climate, companies currently find themselves in the most advantageous funding situation. Company assets, the return on those assets and the equity to debt ratio all have an impact on the companies' assessment when it comes to their possibilities of borrowing.

Companies are optimistic about their opportunities to borrow money

An unprecedented number of companies are optimistic about their opportunities to borrow money. In March 2019 it is just below 70 percent of the members of DI's Virksomhedspanel, who are optimistic about their opportunities to obtain a loan. This is in contrast to the situation during the European debt crisis in 2011-2012, where



less than half of the companies assessed their opportunities to borrow money as being good.

The combination of six years of economic progress alongside of expanding monetary policy and historically low interest rates rub off on how companies perceive their access to financing.

..., however, it depends on how the company performs and on what kind of company it is...

A company's perception of its access to financing depends on how the company performs and on what kind of company it is. Bigger and more well-established companies that create a return on investments are more optimistic about their opportunities to borrow money. Thus, part of the reason behind the improved conditions for borrowing money is driven by gradually improved results and more solid companies.

..., but it has simply become easier today than before

However, it is not only the financial results that drive the companies' view on their ability to borrow money. Taking into account the characteristics of the companies, we see that the access to finance is easier today than before.

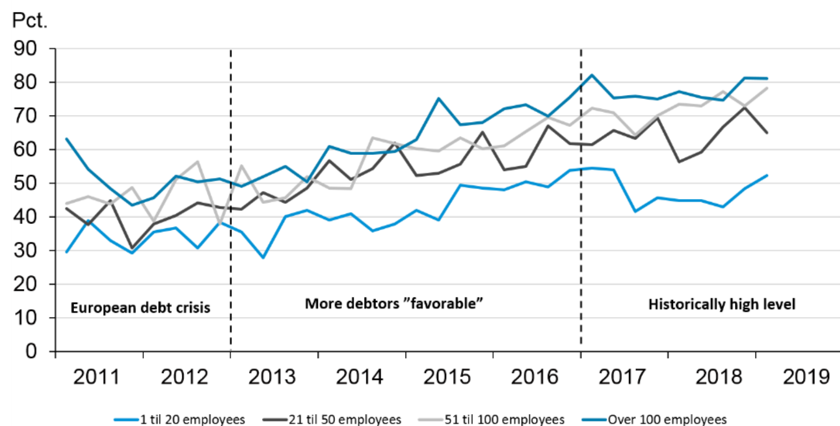
Larger companies are more optimistic about opportunities to borrow money

Large companies are the most optimistic about the access to finance

Large companies with more than 100 employees are generally more positive about their ability to borrow money. Companies with between 20 and 100 employees are slightly less positive than the large ones. Companies with less than 20 employees are the least positive, but also among these companies, optimism is close to the highest level in the last eight years.

Size matters, when it comes to the assesment of the possibilities to borrow money

The share of companies that view their opportunities to borrow as "favorable" or "very favorable"



Sorce: DI's "Virksomhedspanel" concluded at the start of 2019

Assets, return on investments and solvency affect opportunities to borrow money

When larger companies are optimistic about their ability to borrow money, it is not due to the number of employees, but instead it is due to the assets of the companies, their return on those assets, and how solid or solvent they are. This is demonstrated in a regression analysis of the correlation between the company characteristics and their assessment of the financial climate.

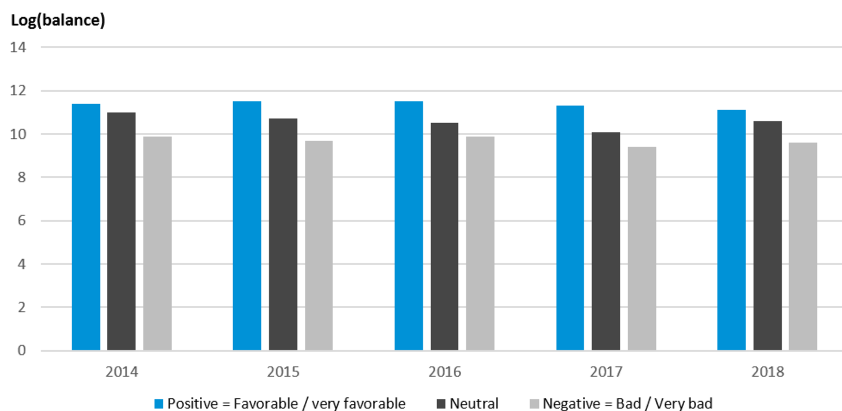
Tabel 1: Company characteristics and the assessment of the financial climate

Variable	Significant	Non-significant
Assets (balance sheet)	X	-
Return on Assets	X	-
Solvency ratio	X	-
#Employees	-	X
Location	-	X
Year	X	

Source: DI's "virksomhedspanel", Bisnode and DI calculations

The amount of assets is important to the possibility to borrow money

The total amount of assets (from the company's balance sheet) is a financial term that indicates whether the company can secure a loan. The most positive companies are the companies with the highest number of assets. This is an image that we have seen over the last five years.



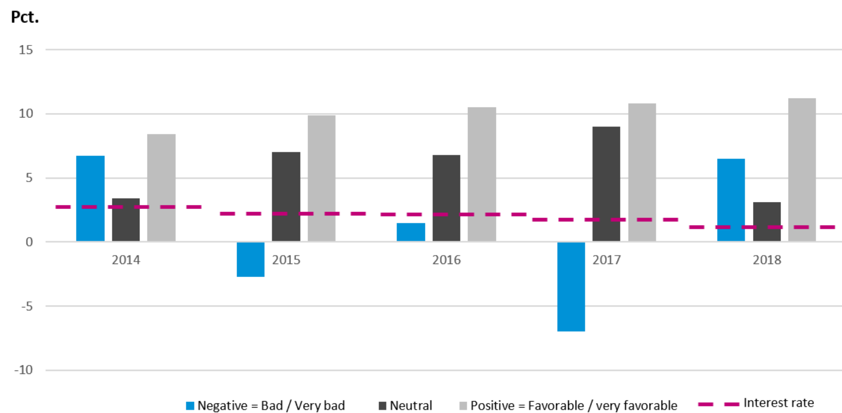
When adjusting for other background characteristics, we find that companies with assets that amount to DKK 500,000 are 47 per cent

more likely to be optimistic about their possibilities of borrowing than a company with assets that amount to DKK 100,000.

Return on assets makes it easier to borrow

Return on assets makes it easier to borrow

A large amount of assets does not do it alone. There must be a positive return on the assets – a positive bottom line. Companies that are optimistic about the opportunities to borrow are companies that over the past five years have had a higher return on their assets, compared to those companies that are less positive about their ability to borrow money.



Companies that are optimistic about their ability to borrow has earned 8.7 percentage points on their loans

If a company has a return on assets that is higher than the interest rate on borrowed capital, they earn money when they borrow. Companies that are optimistic about their opportunities to borrow have had a return on assets that is 8.7 percentage points higher than the lending rate on new loans over the past five years.

Companies that lose money on borrowing are less positive about their ability to borrow money

On the other side, companies that are not so optimistic about their opportunities to borrow money have occasionally lost money on their loans – with their return on assets being lower than the interest rate on the borrowed capital. This being the case, for example, for both 2016, 2017 and 2018, where they on average lost 4.2 percentage points. This makes it harder to obtain a loan.

The regression analysis shows that a company with a 10 percent return on assets is 17 percent more likely to be positive about their opportunities to borrow than a company with a return more or less equivalent to the lending rate on a new loan.

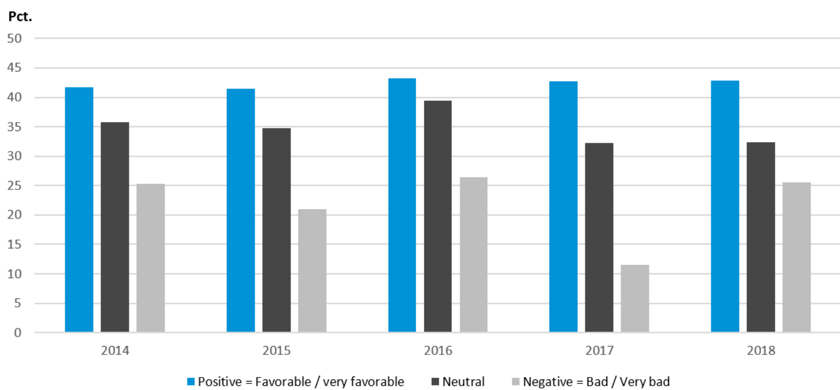
Solvent companies view their ability to borrow money more favorably

Companies with a high solvency ratio find it easier to borrow money

In addition to their ability to use assets as a collateral for loans, and their ability to deliver a positive return on assets, companies also benefit from being solvent. This means, that their financial position allows them to absorb losses. The most solvent companies measured on the solvency ratio, have a more positive assessment of their ability to borrow. It is no surprise that the companies with the lowest risk of reconstruction or bankruptcy find it easy to borrow money.

Robust companies find it easier to borrow.

Solvency ratio compared to the assessment of availability of loans.



Source: DI's "Virksomhedspanel" and Bisnode.

The chance of a company being positive about its ability to obtain a loan is one-third bigger if it is a company with a solvency ratio of 40 percent, compared to a company with a solvency ratio of 20 per cent

Companies with a solvency ratio of 40 percent are 37 percent more likely to be optimistic about their opportunities to obtain a loan compared to a company with a solvency ratio of 20 percent. As a rule of thumb, a well-established company should have a solvency ratio of about 30-40 percent. This rule matches the observations that companies that are more negative about their ability to borrow, have a ratio of 10-30 percent, whereas the neutral or positive companies are in the "recommended" range of about 30-40 percent.

Appendix: Larger and more solvent companies with a positive return on assets can obtain a loan

In the appendix we go into the details of the regression analysis. The model we have applied examines the importance of the company's financial results, size, location and lists the year of the companies' assessment regarding its possibility of borrowing money.

Box 1: Assessment for a whole year

The result of the companies' assessment has been retrieved in the quarterly questionnaire survey, DI's Virksomhedspanel carried out by DI. The companies participate by random in the survey, therefore it is possible they could have answered the question regarding financing between one and four times during the year.

The overall assessment from a company in a given year is found by using the answer that is most often repeated, in the course of a year. If there is no **unmistakable/precise** answer, if for example they have given the same assessment in the first quarters, but another one in the third and fourth quarter, then the assessment from the fourth quarter has been used.

If the company has answered "Do not know" in all the quarters, the company has been screened out.

Companies are more optimistic about their loan options today than five years ago

The analysis demonstrates that over time it has become easier to borrow money. Businesses are significantly more satisfied in 2017 and 2018 than in the first years. The results are shown (Model 2) in Table 2 (below).

Our approach has been to go from a general model, to a more specific one that merely contains the significant variables. Our general model indicates that the number of employees and the company's location does not affect their assessment. They are, therefore, not included in the final model.

Tabel 2: Results with company´s financial statement

Model	(1)	(2)
Assets (Balance sheet)	0,3029*** (0,0303)	0,2908*** (0,0287)
Return on Assets	0,0188*** (0,0032)	0,0187*** (0,0032)
Solvency ratio	0,0152*** (0,0022)	0,0153*** (0,0022)

#Employees	-0,0000 (0,0000)	-
Location outside the larger cities	-0,0452 (0,1025)	-
Year 2018	0,5389** (0,1800)	0,5289** (0,1797)
Year 2017	0,5934** (0,1806)	0,5865** (0,1804)
Year 2016	0,4099* (0,1894)	0,3989 (0,1892)
Year 2015	0,1757 (0,1903)	0,1741 (0,1902)

Note: Numbers in parentheses are the standard deviation. ***Significant at the 0,1 pct. level, **Significant at the 1 pct. level, *Significant at the 5 pct. level, and Significant at the 10 pct. level. Model (1) includes all available financial data, geographical region of the company, and dummies for the years 2014-2018. Source: DI's "Virksomhedspanel", Bisnode, and DI calculations.

Companies with a large amount of assets are the most optimistic about their ability to borrow. If a company already has a large amount of assets to provide as collateral, it will be easier to get a loan. When the bank knows that they can get their money back, should the company go bankrupt, they are more willing to grant the loan.

The company's return on assets is also important for their level of positivity. With a high rate of return on assets, the companies show that they are able to make a profit from the assets, in which the loan is invested. This reassures the bank that the company can pay back the loan which is exactly why companies with a high return on assts will find it much easier to borrow.

The robustness of the companies also says a lot about how optimistic they are about their abilities to borrow. Solvent companies are much better secured from a downturn in the economy and therefore viewed as more secure when it comes to receiving a loan. Thus, the bank is more likely to grant a loan, when it does not expect the company to go bankrupt.

The location of the company plays no significant role when it comes to companies' view on their ability to obtain a loan. Basically, the analysis of the companies' data and own assessments of their funding opportunities shows that the banks grant loans to the best companies, no matter where in the country they are located.

The number of employees has no bearing on the companies' assessments of the possibilities of borrowing. This is due to the fact that we have included "total amount of assets" in our models instead. The number of employees can be considered as a proxy for size

measured by assets, and for most types of companies there is a strong correlation between the two. But it is not the number of employees that determines whether the company can borrow money. This is solely down to the amount of assets that they have.

Key indicators for companies are calculated using financial information from NN Market Data (Bisnode). The financial information covers a five-year period from the fiscal years 2013 to 2018. Data is collected for the companies that are obligated to provide financial statements, regarding the financial information that they are obligated to provide. Companies are not required to disclose information regarding their turnover and cost of goods sold – thus, it has been impossible to calculate key indicators that contain these kinds of information.

We calculate the following key performance indicators:

Return on Assets = [Gross result/ Total amount of assets] * 100

Solvency ratio = [Equity / Total amount of assets] * 100